

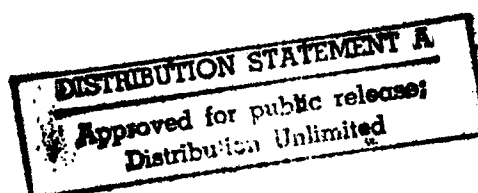
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16 NOVEMBER 1988



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JPRS Report

China



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CONTENTS

16 NOVEMBER 1988

POLITICAL

Intellectuals Possible Contributions to Democratization	[LILUN XINXI BAO Jul]	1
---	-----------------------	---

ECONOMIC

NATIONAL AFFAIRS, POLICY

Selective Use of Western Macroeconomic Principles	[ZHONGQINGNIAN JINGJI LUNTAN Jul]	2
Symposium Discusses Price Reform Under Inflationary Conditions	[JIAGE LILUN YU SHIJIAN 20 Jul]	7
Analysis of Recent Industrial Growth	[JINGJI RIBAO 23 Jul]	11
Developing Enterprise Conglomerates	[JINGJI RIBAO 13 Jul]	12
Enterprise Contracted Management	[JINGJI GUANLI No 8]	13
Increasing Management Rights of Enterprises	[ZHONGQINGNIAN JINGJI LUNTAN Jul]	19

PROVINCIAL

Methods To Improve Jiangsu Enterprise Contract Responsibility	[JINGJI CANKAO 9 Jun]	25
---	-----------------------	----

INDUSTRY

Journal on Petroleum Industry Development	[JINGJI GUANLI No 7]	26
---	----------------------	----

ECONOMIC ZONES

Shenzhen Officials on City Becoming Second 'Hong Kong'		31
Vice Mayor on Need To Emulate	[SHENZHEN TEQU BAO 14 Jun]	31
Theoreticians on Ability To Duplicate	[SHENZHEN TEQU BAO 25 Jun]	31

PRC MEDIA ON FOREIGN ECONOMIES

Lessons From Soviet Union, Lenin on Using Foreign Capital	[GUOJI MAOYI 27 May]	31
Learning From Yugoslavia's Experience in Joining GATT	[GUOJI MAOYI 27 May]	34

AGRICULTURE

Provincial Problems in Production, Marketing of Agricultural Capital Goods	[NONGMIN RIBAO 18 Jul]	36
National Tobacco Procurement	[JINGJI RIBAO 1 Nov]	37
Anhui Steps Up Tobacco Production, Strives To Protect Local Supply	[ANHUI RIBAO 27 Jun]	37
Provinces Invest in Shandong's Salt Industry Development	[JINGJI CANKAO 14 Jul]	38
Increase in Agricultural Investment in Yunnan Urged	[JINGJI WENTI TANSUO 20 Jun]	38
Advances In and Analysis of the Breeding of Insect-Resistant Paddy	[ZHONGGUO NONGYE KEXUE No 4]	41
Report on Pathologic Changes Resulting From Colibacillosis	[ZHONGGUO SHOUYI ZAZHI 22 May]	41
Application of SPA Solid Phase Immuno-electron Microscope Technique to the Assay of Aphtha Virus	[ZHONGGUO SHOUYI KEJI 20 Jun]	42
Technique for Introducing Exogenous DNA Into Plants After Self Pollination	[ZHONGGUO NONGYE KEXUE No 3]	42

SOCIAL

Wang Feng Addresses Conference on Civil Disputes, Commends Mediation Work [FAZHI BAO 14 Jul]	43
Educational Spending per High School Student 'Far Cry' From Meeting Need [JIEFANG RIBAO 15 Jul]	44

REGIONAL

EAST REGION

Article Asserts Taiwanese Writer's 'Envy' Misplaced [DAZHONG RIBAO 4 Jul]	45
Party Membership Drive in Anhui Emphasizes Quality [ANHUI RIBAO 3 Jul]	45
Fujian Procuratorial Agencies Urged To Crack Down on Crime [FUJIAN RIBAO 11 Jul]	46
Zhejiang Governor Shen Zulun Calls for Personal, Administrative Efficiency [ZHEJIANG RIBAO 22 Jul]	46

HONG KONG, MACAO

Li Yu Outlines, Reiterates Dangers of 'Basic Law'	48
'Hideous Features' Mirrored [CHENG MING 1 Jun]	48
'Executive Acts' Questioned [CHENG MING 1 Jul]	53

Intellectuals Possible Contributions to Democratization

40050035d Beijing LILUN XINXI BAO [THEORY INFORMATION] in Chinese 18 Jul 88 p 2

[Article by Zheng Yefu 6774 0048 1133: "Democracy Poorly Understood in China, Even by Intellectuals"]

[Text] Historically China and the West are so different that it is immensely difficult for them to communicate with each other at a deeper cultural level. One has to search long and hard for the equivalents of "law" and "democracy" in the Chinese language. We can make do with "fa" for lack of a better alternative, but the etymological meaning of "fa" is "punishment." The literal meaning of "minzhu" too differs from the Western democratic system today. Only in utopia can the people decide political matters on their own because the only technical tool available is the parliamentary system. In a society with a fairly large population, politics is often something for the elite, but elite rule can be either dictatorial or democratic. Democracy suggests that society is not dominated forcibly by one individual, one faction, or one ideology. In a democracy, the rights of all interest groups and all citizens are institutionally guaranteed.

Traditionally the Chinese political system is neither democratic nor elitist. Thus in terms of efficiency and the general representativeness of interests, the Chinese

political system is far removed from the spirit of our time.

In the course of Western modernization, democratic thought was born at the same time as the rise of a plurality of forces (besides the monarchy, there were the church, aristocracy, and the bourgeoisie) nurturing one another. In China, on the other hand, modernization began amid the onslaught by Western civilization. Inevitably democratic thought developed before the formation of a variety of forces in society. Yet the presence of some "democratic" thought does not make a democracy. Moreover, it is not understood by the people because it is absent from both the traditional Chinese culture and real life. Even when intellectuals sound a clarion call for democracy, their real motive is to protest "autocracy" and their own understanding of democracy is both fuzzy and skimpy. Not that ideas are powerless, but since democracy is pluralistic politics, its formation is directly contingent on the emergence of second and third forces in society. There are only two ways in which intellectuals can contribute to democratization in China: 1) Enlightenment. Explain the value system and institutional format of democracy in simple terms to the rulers (to make them more liberal) and the masses (to help them understand their rights.) Enlightenment serves a limited purpose but must be done. 2) Act as the spokesman of different interest groups (peasants, entrepreneurs, teachers.) It depends on the "wise" to educate every potential interest group about its rights and interests.

NATIONAL AFFAIRS, POLICY

Selective Use of Western Macroeconomic Principles

40060052 Tianjin ZHONGQINGNIAN JINGJI
LUNTAN [YOUNG ECONOMISTS FORUM] in
Chinese No 4, Jul 88 pp 17-22

[Article by Chen Shi 7115 1394: "The Relevance and Irrelevance of Keynesian Economics in China"]

[Text] Macroeconomic policies refer to the collection of plans and measures taken by the state to control and manage the national economy as a whole. Macroeconomic policies in the West were born in the 1930's with Keynesian economics as their theoretical wellspring. Keynes wrote, "Our ultimate task is to find the variables that decide national income and employment to facilitate control and management by the central government."¹ In the West, macroeconomic policies have been remarkably successful in steering the economy and regulating the rate of economic growth, a fact which is loaded with implications for developing nations trying to catch up with developed nations in the West. In their search for an economic policy, developing countries are intensely interested in Western macroeconomic policies and are strongly tempted to imitate them. China, which is devoting itself to structural reform and economic development, is no exception. However, the success of Western macroeconomic policies must be attributed to something else besides their scientific nature, namely the fact that there existed in Western countries the economic basis and social conditions suited to such policies. In China, on the other hand, a totally different economic base and completely different social conditions obtain. It will not work, therefore, for China to simply copy Western macroeconomic policies.

I. General Economic Background: Aggregate Evaluation and Structural Analysis

Given any level of technology and any amount of resources, economic growth is usually constrained by two factors. One is uneven development in related sectors of the economy. Weak sectors turning out unpopular products act as a drag on strong sectors manufacturing popular products, idling some resources. The second factor is insufficient effective demand, which forces some factories to operate below capacity. Again, resources become partially idle. The object of analysis of Western macroeconomic policies is an economy with insufficient effective social demand. In the Western market economy, elements of production are channeled into the various economic sectors in response to the signals sent out by market prices. When the marginal return rate on each element of production in all the sectors reaches more or less the same level, the sectors develop in a largely balanced manner. Since the 1930's, the major problem facing Western economies has been insufficient effective demand and the problem of demand arising from it.

In market economies in the West, enterprises produce goods and provide services in order to sell them on the market at a profit. How much goods to produce or services to offer depends on the effective demand on the market. For society as a whole, if aggregate demand is smaller than aggregate supply, some goods will remain unsold on the market and enterprises would cut production correspondingly. This is how insufficient effective demand restrains economic development—by lowering actual production capacity below potential production capacity. At this point, all it takes to increase production is to increase demand. In the West, insufficient effective demand occurs because of under-consumption, which happens when consumption expands more slowly than income growth, and because of under-investment, which happens when investment expands more slowly than savings. To solve the problem of idle resources resulting from insufficient effective demand, the keynote of Western macroeconomic policies is naturally to stimulate demand. Fiscally, the government boosts public spending and financially, the central bank loosens the money supply. When government stimulates demand too long, aggregate demand may overtake aggregate supply, which in turn will lead to inflation with prices soaring across the board. Now the keynote of macroeconomic policies is to reduce demand. On a long-term basis, this is the mechanism whereby demand occurs in the West—insufficient effective demand, which is psychologically induced, is present all the time. To solve the resultant problem of idle resources, the state has to keep stimulating demand which, in turn, causes a sharp rise in demand and inflation. This is followed by a gradual drop in demand.

Macroeconomic policy-making is based on an aggregate evaluation of the nation's economy. Western developed nations normally assess the economy in aggregate terms, that is, they evaluate the economy by the relationship between aggregate demand and aggregate supply. If aggregate demand exceeds aggregate supply, it means there is an excess of demand and the economy is overheated. An excess of aggregate supply over aggregate demand, on the other hand, signals insufficient demand and an economic recession. To facilitate observation, Western nations regularly use the unemployment rate as an indicator of the extent of insufficient demand and the inflation rate as a gauge of excessive demand. Before the 1970's, the conventional wisdom among Western economists was that when unemployment rose, inflation fell, and vice versa. In the 1970's, a more complex phenomenon—stagflation—occurred in Western economic life as inflation and unemployment shot up at the same time. By then both the unemployment rate and the inflation rate had ceased to give a true picture of the economic situation on their own separately. Instead, economists must base their evaluations on the sum of the two indices, known as the discomfort index, or DI. In the second quarter of 1980, for instance, the unemployment rate in the U.S. was 7.5 percent, the inflation rate, 15.2 percent, yielding a discomfort index of 22.7 percent. When we compare this index to that earlier in the year or that for the same period a year ago, we get an idea of the

overall economic trend. Armed with this piece of information, we can then proceed to examine the inflation and unemployment rates separately and discover the major problems in economic life.

In a developed nation in the West, aggregate evaluation yields a general economic picture that serves as the basis for national economic policy-making. In China, however, aggregate evaluation does not faithfully reflect the economic situation, let alone provide a basis for macroeconomic policy-making. In this country, the major obstacles to economic growth are not insufficient effective demand or an imbalance in total output, but insufficient resources and a structural imbalance.

As a nation, China is severely undercapitalized. First of all, the national economy is heavily agricultural, with the agricultural sector accounting for 40 percent of the national income, only a limited portion of which can be set aside as accumulation. Second, because of poor management, Chinese industries are currently being operated inefficiently. While industrial output value constitutes more than 50 percent of the total social output in the various sectors, a mere 40 percent or so of the national income comes from industry, of which only a small portion is net income. Third, China is a populous country with a very low per capita income and meager regular domestic savings. What limited funds it has are far from sufficient to finance industrial modernization and the exploitation of the nation's economic resources. Fourth, after the nation was opened to the outside world, Western consumption patterns have proved so powerful an example that consumption among the Chinese people has tended to race ahead, thus channeling the lion share of what limited national income there is into consumption, with a corresponding decline in the share devoted to accumulation and production. With limited funds, China cannot expand the scale of production and increase supplies anytime soon, so the gap between supply and demand continues to widen. The keynote of China's macroeconomic policy, therefore, should be controlling consumption, increasing accumulation, and boosting supplies.

The absolute shortfall in resource supply sets the keynote of China's macroeconomic policy, but it does not dictate a policy of controlling the aggregate volume. China today still lacks what it takes (that is, a rational industrial structure) to carry out policies to evaluate the aggregate volume and manage demand. A more pressing problem in Chinese economic life is the unbalanced utilization of resources between the various sectors. To build up its own industries, China has been following a strategy of import substitution by developing its own manufacturing industries. In essence, this strategy calls for the state to adopt protectionist policies and restrict the import of processed industrial goods in order to foster the development of domestic industries. As they are highly profitable and pay off quickly, processing industries are easily the favorites among investors. In China, processing industries have been growing at an extraordinary

pace, protected by government trade policies and nurtured by government funds. At the same time, however, primary industries like energy, transportation, and raw materials have been lagging behind. Given their long lead time and enormous capital requirements, primary industries often end up as the bottleneck impeding economic growth. Since primary industries are stagnating, processing industries cannot operate at full capacity and some resources become idle. The classic example in real life is the factory which has to suspend production wholly or partly because of electricity shortages. This kind of resource under-utilization cannot be explained with the concept of insufficient effective demand but is entirely caused by irrationalities in the industrial structure. Because of China's unbalanced industrial setup, aggregate evaluation does not truly reflect the economic situation. Aggregate evaluation may occasionally shed light on some issues, but it actually conceals much more than it reveals. The basis for macroeconomic policy-making in China should not be aggregate evaluation but a structural analysis of the various sectors.

II. The Function of the State: Market Regulator and Market Organizer

A developed nation has a highly mature market economy. In a market economy, property right relations are well-defined, market mechanisms are sound and comprehensive, and fair competition is protected by law and affirmed by social values. The role of the state in this kind of market economy is that of a market organizer. In other words, state intervention in the market no longer mainly takes the form of market organization but instead reaches a deeper level of controlling and managing the various spontaneous market forces and their results. Studies by Adolf Bei Li, an American economist, show that after World War II, the government of the capitalist state has acquired the power and skills to carry out a substantial amount of economic planning.² Under this kind of economic planning, the state takes into consideration, or at least is able to take into consideration, the possible impact of its plans and measures on society as a whole. In the process of capitalist industrialization, however, government power in this area was minuscule. At the time nobody could significantly influence or manipulate another individual's actions; he could only determine his own actions. In those days none of the manifold consequences of economic activities was the result of the conscious will or action of any individual; instead they were the products of a kind of unplanned accumulation.

The experience of countries with a market economy shows that after the framework of a market economy was established, the market economy could not effectively resolve all economic problems; the market fails sometimes. Examples of market failure include the instability of economic growth, unequal distribution of income, the incorrectness of consumer and producer choices, the suboptimality of the social benefits of resource allocation, and the intensification of conflict among various

interest groups. Thus there is a need for the state to regulate interest-group activities on the market and resolve those problems that market mechanisms fail to straighten out. It is not only necessary but also possible for a developed nation to intervene in the market economy at a deeper level. After World War II, the role of the government in the economic life of a developed nation has been expanding steadily, as demonstrated first and foremost by the continuous rise in public spending in the wake of a growing GNP and the ever-increasing government share of income redistribution. Through its power to tax, the government has considerable financial resources at its disposal, resources that it can use to implement its policies and achieve its objectives. Second, the state directly wields many policy instruments to regulate economic activities. When it was created in 1914, the Federal Reserve System of the U.S. had minimal power and served mainly as a watchdog. In 1935, the U.S. Congress passed the Banking Act and gave the federal reserve more responsibilities and power, making it an effective tool of credit control. In developed nations in the West, the government as a market regulator is free to deploy a battery of tools to alter the direction and intensity of spontaneous market forces in order to ensure normal market operations and stable economic growth. The government also mediates between labor and management to achieve social justice and between the "rich" and the "poor" to maintain social peace.

In contrast to developed nations in the West, China right now is in the course of establishing a market. It is in the transition from the traditional highly-centralized planned economy to a market economy. While the role of market mechanisms in economic life are gradually being strengthened, market economy as an institution is still not yet in place. In this stage, there is a major difference in the extent of state intervention in China compared to the West. In China, the primary economic function of the state is not to regulate and control the various spontaneous market forces, but to provide an arena where all interest groups could do the best they can and to lay down the rules of conduct for them. To begin with, the state must set up a legal system that recognizes and explains the relations between different property ownership systems to ensure that neither the property rights of various interest groups nor the benefits that flow from such ownership rights will be encroached upon. When property rights are ill-defined, the boundaries between different interest groups are blurred, thus robbing economic activities of their intrinsic vitality and momentum in the long haul. A hallmark of the traditional planned economy, this constitutes a fundamental obstacle to the development of a market economy. Next, the state should draw up a set of business laws and market rules to govern the behavior of all market players, manage their relations, and ensure equal opportunity and fair competition. Direct intervention by administrative units in market activities, characteristic of the traditional planned economy, should be reduced gradually until it is totally eliminated.

The central purpose of the structural reform currently under way in China is to make economic life completely market-oriented. To effect this transformation, the state should assume the responsibility of organizing the market. In that capacity, it should bring out the best in all spontaneous market forces within the existing framework. Before the various market forces are fully exploited, the state cannot effectively manage and regulate all the consequences of these spontaneous forces. Only after a market economy is really in place will it be possible for state intervention to be upgraded to regulation. When the state functions as a regulator prematurely, neither market mechanisms nor planning mechanisms can work effectively. Thus the thrust of China's macroeconomic policy today should be market organization, not market regulation or control.

III. Income Distribution Policy: Stimulate Consumption and Encourage Savings

National income distribution directly influences a country's consumption and savings. Most countries make it a priority to draw up an income distribution policy suited to their circumstances in order to promote stable economic growth. In society, high-income classes usually are less inclined to consume and more inclined to save than low-income classes. At any given level of national income, the more unequal its distribution, the greater its concentration in high-income classes. Thus if distribution is highly concentrated, overall social savings will increase, consumption will fall, and a larger proportion of national income will go toward savings. An increase in savings satisfies a prerequisite for an increase in net investment. As noted earlier, the principal obstacle to economic growth in Western developed nations is not a lack of funds, but a lack of effective demand. Given this fact, more resources will become idle and be wasted if consumption decreases and savings go up. To utilize resources to the full, what is needed in this case is high consumption. When consumption increases, effective demand goes up, and when effective demand goes up, investment becomes more attractive, which means that resources now idle will be put to use again. The basic national income distribution policy of Western developed nations, therefore, is to maintain income distribution at a relatively equitable level and keep consumption high. Specific measures include a high progressive income tax and inheritance tax, economic relief for low-income families, and increases in public welfare, among other things. Regarding the effects of unequal distribution of national income, Western economists have undergone a complete turnaround. In the first 30 years of this century, Western economists played up the stimulatory effects of unequal national income distribution on economic growth, their basic argument being that unequal income distribution would lead to more savings and more net investment, which would generate economic growth. This theory was rejected in the 1930's when reality proved that increase in savings does not necessarily lead to more investment and faster economic growth. It was then that Western economists began

advocating equal income distribution and high consumption as a way to fuel economic growth. Such is the theoretical underpinning of income distribution policy in the West.

In contrast to the West, which has an excess of funds, the main difficulty in economic development in China is a lack of goods, materials, and funds. This explains why most Chinese industries have adopted the labor-intensive production mode. Under this production mode, marginal output per unit of fund is considerable, while marginal output per unit of labor is minimal. It follows that the basic objective of China's macroeconomic policy should be to accumulate additional funds. In modern society, we must depend on self-accumulation for the massive amount of funds required for economic development. In borrowing heavily abroad, we are only saddling ourselves with a huge burden in principal and interest repayments and creating a string of political and economic problems. In this respect, the economic practice of many developing nations in South America has taught us a valuable lesson. Mention the increase of accumulation, and we often only think of the accumulation mechanisms of the state and enterprises, forgetting that citizens too have a capacity for fund accumulation. Traditionally income distribution among the Chinese people has been excessively egalitarian. Only a tiny part of an individual's income could be set aside as savings (excluding compulsory savings). The result is that there was no alternative but to allocate more resources to the production of consumer goods, with a corresponding decrease in the manufacturing of capital goods, thereby worsening the imbalance in industry mix. As economic structural reform intensifies, income distribution of various forms and shapes will appear and the excessive egalitarianism in income distribution will come to an end. Increasing inequality in income distribution will boost savings, while China's relatively high marginal product to fund ratio will see to it that savings are immediately translated into investment, in the process diverting some resources into the production of capital goods which would otherwise be used to make consumer goods. In formulating its income distribution policy, therefore, China should not insist rigidly on short-term equality. Instead, it should opt for unequal distribution as a means of accumulating more funds in order to bring about equal income distribution at a higher level. This is a painful stage that every developing nation must go through on its way to development.

IV. Monetary Policy: Fully Elastic Interest Rates and Inelastic Interest Rates

A successful monetary policy requires a host of preconditions and bases, such as sound financial institutions, a developed financial market, and freedom of circulation for elements of production (skilled workers, existing production equipment), so on and so forth. Let us take interest rates as an example to explain the basis of Western monetary policies.

In Western developed nations, interest rates are a critical economic parameter. Interest is the cost of capital and interest rates are the barometer of investment; investors often decide whether or not to invest depending on the relationship between the projected return rate and interest rate. When the projected return rate exceeds the interest rate, the investor believes there is money to be made and may decide to increase his investment. On the other hand, when the projected return rate is smaller than the interest rate, not only will he decide against increasing his investment, but he may even withdraw whatever funds he has already invested. Accordingly, manipulating the interest rate is usually an important macroeconomic management tool in the hands of the state in the West. However, interest rate is a kind of price on the financial market determined by the supply and demand of money. Normally the state cannot directly set interest rates. What it can do is to indirectly force interest rates to go up or down by tightening or loosening the money supply. Interest rate movements cause corresponding changes in the supply of goods. Needless to say, this is possible only when elements of production circulate freely. A drop in interest rates provides an opportunity for idle resources to be put to use again at a profit. Conversely when the money supply is reduced and interest rates go up, some resources become idle and the supply of goods diminishes. Here we can see that changes in the money supply result in corresponding changes in interest rates, which, in turn, cause changes in the supply of goods. Thus changes in money supply are fully interest rate-elastic, while changes in interest rates are fully supply-elastic. These two types of elasticity constitute the foundation of government macroeconomic control through a monetary policy.

Reform in China in recent years has begun to transform its traditional product economy into a monetary one. The reform of the banking system is still in its infancy. To a large extent banks remain the Ministry of Finance's cashier. There has been no basic change in the dominant position of the Ministry of Finance and the powerlessness of banks. China still lacks the conditions for the government to manage the macroeconomy through a monetary policy.

First of all, changes in the money supply are not fully interest rate-elastic, the relations between money supply and interest rates having been severed so that they do not move in tandem. The interest rates charged by Chinese banks are primarily determined by the state and are not the result of spontaneous changes in supply-demand relations. Consequently, interest rates themselves are inelastic. When the government wants to see the interest rates go up or down, it normally does not seek to achieve this indirectly by tightening or loosening the money supply. Instead it takes direct administrative measures. When the government does tighten or loosen the money supply, its purpose is not to influence interest rates, but to meet the demand for money in economic activities. The principal methods through which the government increases or decreases the money supply are direct ones

such as increasing or reducing the amount of credit, not indirect ones like adjusting the banks' rediscount rate and reserve rate and open market activities.

Second, with little supply-elasticity, changes in interest rates have little impact on investment and production activities. In the course of economic structural reform, appropriation, the traditional form of funding, has been replaced by borrowing and lending. Because of the yawning gap between fund supply and demand in China, however, both the marginal product to fund ratio and the expected return to fund ratio are extraordinarily high and interest rates constitute no price barrier to new investment. As a result, the amount of lending is usually not amenable to control by interest rates but is restricted by the lending quota. Many loans have been issued directly by the higher level to the fund-using units below. In this lending system, which smacks of appropriation, interest rates are not the major consideration in the mind of the borrower. What concerns the fund-using unit most is how to get hold of a borrowing quota, not the cost of borrowing. Besides, even when interest rates do figure significantly in the calculation of the fund-using unit, much of China's resources remain latent, something to be used only in the future. For example, workers have yet to be trained and production equipment has yet to be manufactured. Therefore, even if interest rate changes do influence investment and production activities, changes in the supply of goods will not occur until after a considerable period of time has elapsed.

In short, what we should do regarding monetary policy at the moment is not to concentrate on regulating money supply and the level of interest rates, as is the case in developed nations in the West, but to establish and improve the financial institutions and financial market, which are essential to a monetary policy, so that interest rates can truly function as a regulator of investment and production activities.

V. Fiscal Policy: Strong and Weak Multiplier Effects

It was in the 1930's that developed nations in the West began using fiscal policies to manage the macroeconomy. At first the governments increased public spending in order to solve a serious unemployment problem. After World War II, fiscal policies in the West evolved into deficit budgeting, the purpose of which was not only to solve unemployment, but to maintain sustained economic growth as well. It was precisely under the tutelage of deficit budgeting that 20 years of prolonged economic growth were achieved in the West after the war. Numerous social and economic conditions must be met before a government can use deficit budgeting to maintain economic growth. In particular, the multiplier effects of investment must be able to trickle down throughout the economy rapidly. In the West, income resulting from an addition to investment exceeds such addition several times over. To increase investment, one must first increase the production of capital goods, thereby increasing employment and

incomes. More incomes will definitely lead to more consumption, which means increased production of consumer goods, which in turn creates more employment and incomes. The theory of the multiplier effect of investment is the philosophical cornerstone of deficit budgeting in developed nations. When a government increases expenditures and public spending, its hopes are that the "snowball" effect of investment would keep expanding so that idle resources are put to work gradually and that employment, incomes, and gross output would increase by a margin several times the initial government increase in investment. It is true that deficits resulting from increased public spending would cause price increases, but increases in consumer goods production resulting from the multiplier effect would catch up with inflation after a relatively short lapse in time. Thus the inflation induced by government deficit budgeting would gradually disappear before it gets out of hand.

In China, government expenditures have exceeded revenues almost every year recently. Deficit budgeting in China is not the result of a desire on the part of the government to stimulate demand, but the consequence of official efforts to adjust and optimize the industrial structure. China today is still unequipped to stimulate economic growth through deficit budgeting. The multiplier effects of investment will not trickle throughout the economy promptly. Additional government investment may result in certain extra capital goods and increase some incomes. However, the self-consumption rate of the capital-goods-producing sectors is so high that only a limited portion of their output can be made available to consumer-goods-producing sectors. Hence the multiplier effect of investment drops sharply at this point and will not be able to stimulate a corresponding increase in consumer goods production. Moreover, China's consumption tendency is extremely high, almost approaching one. Thus any increase in investment will almost completely translate into additional demand for consumer goods, thereby further widening the gap between the supply and demand of consumer goods and pushing up their prices rapidly. Chinese people are very sensitive to changes in consumer goods prices and highly intolerant of price inflation. As soon as market shortages occur, they begin to think inflationary and become disinclined to save any of their cash incomes. Runs on banks may even occur. To spend their entire income as soon as possible, people often hoard goods and materials and purchase gold, silver, jewelry, and other articles whose value goes up as inflation increases. Panic buying only makes market shortages worse. Soon inflation shoots up, which in turn generates popular demands for higher cash incomes. The result is an economic vicious circle with successive rounds of price hikes and wage increases.

Because the multiplier effects of investment differ in intensity in China and the West and because these countries have different economic climates, deficit budgeting-induced inflation gives rise to two completely different scenarios.

Footnotes

1. J. M. Keynes, *The General Theory of Employment, Interest, and Money*, English edition, p 247.

2. Adolf Bei Li, *The Capitalist Revolution of the 20th Century*, Shangwu Yinshuguan, 1964 edition, p 15.

12581

Symposium Discusses Price Reform Under Inflationary Conditions

40060072 Tianjin JIAGE LILUN YU SHIJIAN
[PRICE: THEORY AND PRACTICE] in Chinese
No 7, 20 Jul 88 pp 2-6

[Summary of a Symposium on the Theoretical Aspects of "The Problem of Currency Inflation and Commodity Prices in China and in Foreign Countries," edited by Gao Xiaohui 7559 2556 1979: "How To Carry Out Price Reform Under Inflationary Conditions"]

[Text] Now that we are engaged in a structural adjustment of the price system as it has developed over the years, it is hardly possible to avoid the general level of commodity prices should going up a certain amount. However, the excessive rise in commodity prices in the last few years is not altogether the result of structural readjustments in the price system. The rise contains, to a considerable degree, elements of currency inflation. On the other hand, from now on the price reform demands a speedier tempo, while no speedy change is possible in the inflationary situation. Thus, there arises the question of how to proceed with price reform under inflationary conditions, a question of practical as well as of theoretical significance. To explore this question and make a contribution to its solution, the editorial department of this periodical, together with the editorial department of SHIJIE JINGJI YU ZHENGZHI [WORLD ECONOMY AND POLITICS], organized a joint symposium on the theoretical aspects of "The Problem of Currency Inflation and Commodity Prices in China and in Foreign Countries." It was held in Beijing on 30 May, and several specialists and scholars who had done studies in this area had been invited to a discussion. In light of the actual conditions of currency inflation in China and abroad, the symposium gave particular attention to the discussion of the following two problems.

Cause and Nature of Currency Inflation and Commodity Price Increases

All participants at the symposium agreed that the causes of currency inflation and commodity price increases, regardless of whether in China or abroad, are complex and require specific analysis.

Most of the comrades attending the symposium believed that China's inflation is mainly the result of an excessive issue of currency and the pressure of demand, but the various arguments on this question differed in points of emphasis and in views expressed.

One view believed that China's inflation and rise in commodity prices is to a great degree related to China's pursuit of too fast an economic development and implementation of rather loose financial and currency policies. Inflation occurred first in investment demand and consumption demand. As to investment demand, it has never been possible to solve the problem of too rapid industrial development and too extensive capital construction, while at the same time there was a sharp increase in individual incomes and consumption demand, and rapid increases in the total amount of staff and workers salaries and wages and in the average income of peasants after the reforms. Whether these were increased investments in fixed assets or increases in the incomes of individuals, all were in excess of the growth of state revenue and productivity. As a result, a gap opened up as total demand exceeded total supply, which then generated the huge pressure for currency inflation and commodity price increases. A secondary cause was the inflationary growth of the financial deficit and of bank credits. In China, there are three ways in which the financial deficit is met: 1. drawing on surpluses accumulated over the years, 2. issuing bonds and taking in foreign loans, and 3. bank overdrafts. Any solution by means of excessive bank overdrafts is bound to result in an excessive supply of currency and lead to total demand greatly exceeding total supply.

Some comrades believed that currency inflation is an indication of the rise in the general level of commodity prices, but that the rise in the general level of commodity prices is not tantamount to currency inflation. It is necessary not only to differentiate between two kinds of commodity price increases but also to differentiate between two kinds of currency increases. Besides, in the process of adjusting the price structure, the rise in the general level of commodity prices due to the intended rectification of too low prices for primary products or due to the intended change of excessive "covert subsidies" into "overt subsidies" for some final products, is a rise in commodity prices that is beneficial to the country and the people, and that cannot be avoided. In conformity with these developments, some social products must be represented by more currency, and increased issue of currency in this respect conforms to the quantity which is actually needed to be in circulation. In this connection, the commodity price increases are the cause, and the increased issue of currency is the effect; the rise in commodity prices induces additional issue of currency. This kind of rational increase in commodity prices and the normal issue of currency cannot be called currency inflation. Another kind of currency issue is one carried out under the constraint of a substantial excess of total demand over total supply, excessively large capital construction, excessively fast increases in consumption

funds, and an excessive financial deficit, which then in turn leads to increases in commodity prices. The rise in the general level of commodity prices experienced in China in recent years contained factors of commodity price increases caused by the adjustment of the price structure, as well as factors of currency inflation. If we do not differentiate, it will, on the one hand, not be possible to carry out price reform, and will, on the other hand, conceal the dangers of currency inflation for the socioeconomic life.

Some comrades believe that commodity price increases are due to a large variety of socioeconomic causes. It is possible to construct a complex network to represent these causes and their relation to the commodity price increases, but looking at the direct causes we see that one major element is the excessive granting of credits and excessive supply of currency. From 1984 to 1987, the average annual rate of increase of currency supplies (total deposits plus cash) was 23 percent, the average rate of increase of circulating cash was 27.3 percent, the average annual rate of industrial growth was 13.8 percent and of agricultural growth 10.6 percent, while the rate of increase of state revenue was 10.4 percent. The increased issue of currency by far exceeded economic growth and was therefore bound to create currency inflation.

Moreover, some comrades believed that the cause for China's currency inflation was price pressure exercised by the readjustment of cost and profit levels in the course of the economic development and by structural transformations. Other comrades believed that the fundamental cause for China's currency inflation is the low economic returns and the unsatisfactory returns from investments in industry and commerce and in foreign trade, which inevitably led to increased currency volume. This, in turn, causes currency inflation.

Taking a lesson from foreign experiences, some comrades referred to the examples of Yugoslavia and Poland and concluded that the major causes for serious currency inflation and rising commodity prices in socialist countries are priority on consumption in the area of distribution, overextended basic battle lines in the area of investments, in the structure of the economy an imbalance in the ratio between the two large categories of trade, too large imports, and too heavy foreign indebtedness. A mixture of all these elements constitutes the vicious circle that causes a rapidly worsening currency inflation.

An analysis of the situation led some comrades to point out that we see from international experiences in the younger generation of industrial countries of Asia and South America at their stages of rapid economic development, that under the impact of structural changes in their domestic economies, almost all have experienced periods of commodity price instability. If we look at the present conditions, we see not only that China is in a special developmental period of a radical transformation of its industrial structure, but also that the frictions and

mutual conflict between the two systems are getting increasingly sharper. These two factors will exercise strong pressure on the level of commodity prices and will make continuously rising commodity prices an almost inevitable problem.

First, at present the rural population has only limited capability for accumulations; rural manpower and rural nonagricultural production can look for its development only to the processing industry which requires little investment and yields comparatively high returns. As a result, the processing industry vigorously expanded, but since the basic industry and infrastructure had an insufficient supply capability, it drove up the prices for industrial products. On the other hand, due to the extremely large disparity between returns from agriculture and returns from nonagricultural industries, and agriculture's inability to quickly raise the returns from agricultural capital through the institution of large-scale operations, agricultural capital as well as rural manpower moved away from agriculture, which made it impossible to increase farm and agricultural sideline production and as a result prices for these products rose.

Second, due to China's traditional system of organization and its traditional development strategy, the size of its tertiary industry had remained extremely small. Under the impact of market mechanism, this kind of structural divergence is bound to lead to large increases in commercial profits. Stimulated by more than abundant commercial profits, commercial organizations have increased more than 5 times in the last nine years. It stands to reason that with the increase in commercial capital, the level of normal profits would go down again. However, new problems arose. With too small a commercial organization, no large-scale returns could be achieved, and at the same time operations were mostly of a scattered nature with shipments and sales involving only small quantities. In addition, distribution of commercial organizations was not altogether rational. All these factors increased trading costs and intermediary expenses, and contributed to raise sales prices.

Third, presently, after responsibility for financial matters had in many provinces been assumed locally under contract, consideration for local financial revenue frequently induced increases in prices or decontrol of prices first of all for products of the locality in question. Because the pricing "potential" is different in different districts, these measures frequently meant that forceful pressure would be felt in the supply sources for other provinces, and, as a consequence, regional readjustments of prices were having a powerful fragmenting effect on the economy.

Fourth, in recent years, industry and agriculture in the Chinese economy had been out of step with one another in their cyclic ups and downs, and this has frequently been the cause of price fluctuations. For instance, the period from 1982 to 1984 was one of very abundant harvests in agriculture, but industry at that time was by

comparison rather depressed, and as far as its capacity to take up agricultural products the urban industry lagged behind the increased supply available from agricultural production, so that grain prices dropped. But after 1985, agriculture entered a period of only small increases in production, while industrial growth was comparatively fast. This was bound to bring about a continuing excessively strong demand for agricultural products and create pressure for increases in the prices of agricultural and agricultural sideline products.

How To Proceed With the Price Reform Under Inflationary Conditions

The question whether it would still be possible under the present inflationary conditions to proceed with price reform and how to carry out this reform was a subject most vigorously debated by the participants at the symposium. A variety of different views were voiced during the debate.

Some comrades believed that currency inflation constituted a major obstacle for the smooth progress of price reform. The main manifestations of this were said to be:

First, in recent years currency inflation and price reform had become entangled and caused structural price readjustment to turn into universal price increases. Prices that should not have gone up went up, prices that should not have gone up much went up very high, and prices that should not have risen fast went up fast. All this blocked progress in the price reform. 1. Under inflationary conditions, excessive spontaneous price rises prevent a well planned price reform from getting started and shakes the determination of the leadership to pursue the price reform. 2. Under inflationary conditions, the whole range of rational price increases for primary products will very soon be nullified by the inappropriate raising of prices for processed industrial products, so that when the general level of prices will have reached a new stage, price parities will again have "reverted to original positions," and as a result it will be impossible to achieve the anticipated goal of readjusting the price structure. 3. Under inflationary conditions, the entire price reform will definitely exact a high price and increase the burden on state, enterprises, and consumers. 4. As soon as pernicious inflation starts, it will be difficult to control it.

Second, currency inflation is a destabilizing element in society. In the last three years, commodity prices have continuously risen at a fast rate. Particularly commodity price increases in 1987 broke through all control targets, without any compensatory measures ever having been taken. Today's actual conditions give even less reason for optimism, and dissatisfaction among the general public is rising. There is also a great discrepancy between the rates of inflation published by the government and what the general public is experiencing, which makes the general public suspicious, and as a consequence they lose all enthusiasm for the support of price reform.

Third, because of currency inflation over the last few years, the interval between excessive issue of currency and its turning into a pressure for commodity price increases was just decreasing, but under the impetus of commodity prices increasing so many times over, the rate of annual increases of commodity prices is currently showing a tendency to accelerate. The continued steep rises in commodity prices have made people anticipate further inflation, and enterprises and units, instead of directing their efforts to the technological improvements, improving business administration, and raising economic returns, direct all their efforts to hoarding and speculating, profiteering, vying with each other in raising prices, utilizing monopolistic or privileged positions to seek exorbitant profits during circulation, etc. This situation is only apt to further confuse price relations and to again twist and distort those price relations that had already been straightened out.

Fourth, currency inflation easily engenders negative interest rates. This is certainly having an adverse effect on the normal development of the economy. 1. It encourages indiscriminate investments, particularly the rapid development of those departments and enterprises that are able to obtain preferential loans, and leads to deterioration and imbalances in the way capital and resources are distributed, items that after all are in short supply to begin with. 2. It will lead to a loss of control over loans and too fast an increase in the amount of currency being supplied, and that again will increase speculative demand for commodities and real estate. 3. It impairs the enthusiasm for saving among the people, prevents reform of the financial system and of the development of a finance market, and encourages those who hold currency to store up commodities and to invest in land or nonfinancial assets. 4. Since the devaluation of Chinese currency cannot catch up with the speed of inflation, and the currency is, as a result, overvalued, it will depress exports and have an adverse effect on the international balance of payments. 5. Currency inflation is bound to lead to an upward spiral in wages and commodity prices, in which the speed of wage increases will exceed the speed of increases in productivity. International experience has shown that the alternating rise in wages and commodity prices is a most disturbing situation in economic life. Under these circumstances, it will also hardly be possible to adjust the wage structure reasonably, so that income from mental labor and income from physical labor will be in an inverse relation, and the wage incomes in commodity circulation enterprises will be higher than in production enterprises. Under inflationary conditions, the wage income will in many cases not depend on the normal production or business income of the enterprise, but largely on price changes, income from profiteering, etc.

Some comrades believed that practice has already proven that in the economic reform there is no detour around price reform, and that things have by now reached a stage which brooks no further delay. A prompt decision has to be made; there have to be both price

adjustments and price decontrols, and the decontrolling of prices should be the primary strategy. For this purpose, the most important issue is the need to reduce currency circulation. In order to diminish repercussions and risks, price reform must be carried out in steps, with the aim of decontrolling a large part of commodity prices of competitive sectors by the end of the Seventh 5-Year Plan. Furthermore, because price reform is a necessary condition for the continued effective operation of the economic machinery but not the only condition, it is extremely important to effect reforms in many other complementary sectors in addition to the price sector.

Some comrades have particularly emphasized that price reform cannot possibly wait until the problem of currency inflation has been resolved, and that currency reform should be carried out at the same time as efforts are made to control inflation. However, carrying out price control under inflationary conditions requires great caution and must be carried out step by step in a planned way. Decontrol of prices must not be decreed suddenly and all at once. The reform should first entail prices of commodities for which the supply situation can be quickly improved and demand easily controlled, so that in these sectors, price reform can as quickly as possible balance out total supply and total demand. To prevent tightening money supply in arbitrary uniformity and cause shrinkage of production, the money supply must be tightened in the total amounts made available, and it would then be necessary, in the concrete execution of the policy, to single out special enterprises that can quickly increase supplies, and in construction projects loans should not only not be reduced but even increased. We must not call a stop to price reform and wait until inflation has been controlled. The two undertakings must be pursued at the same time, and under no circumstances must we allow currency inflation to continue while price reform is accelerated, otherwise the situation will become too dreadful to contemplate.

Some comrades believed that China's price reform is now facing two difficult problems. One is too low prices for agricultural products, and the other is too low prices for sources of energy, mineral products, and basic raw and semiprocessed materials. The only way to solve these two important problems without causing currency inflation is to rely on increased economic returns. We have to realize that China's agricultural productivity is very low and needs increased support from industry, and if industry is unable to contribute more funds, it is impossible to solve the problem of agricultural prices. When trying to solve the price problem for sources of energy, mineral products, and basic raw and semiprocessed materials, reliance must also be placed on processing enterprises to raise their handling capacity. Thus, the solution for the price reform problem is raising economic returns; the higher the economic returns, the broader the prospects for success in the price reform.

Some comrades believed that a prerequisite for price reform is the fundamental stability of the level of commodity prices, because the objective of price

reform is the adjustment of the price structure. Although the adjustment of the price structure can possibly lead to a rise in the commodity price level, this rise would be of a one-time nature and would not lead to universal and persistent rises in commodity prices. But since the reform is carried out under conditions of currency inflation, it is quite possible that this one-time rise, by affirming the people's anticipation of commodity price increases, would lead to an aggravation in the commodity price situation, and, as a consequence, will also add to the difficulties of price reform. When carrying out price reform, it is necessary, apart from stabilizing the macroeconomy and stabilizing the fundamental level of prices, also to provide guarantees in other respects, such as for an improvement of enterprise organization, restriction of monopolies, and for the establishment of a competitive market structure.

One opinion expressed at the symposium believed that China's commodity price problem at this juncture is due in large part to an adjustment of cost and profit levels in the course of economic development and due to price pressures caused by the structural changes. It is therefore necessary, when trying to solve the problems of price reform, to focus attention more on the supply aspect. Of course, it is also necessary to find new ways of solving the problem of too large a demand.

From a long-range view, it seems we must emphasize reform and adjustment in the supply sector, such as increasing the flow of capital into commerce, promoting combination of small commercial units, and at the same time carry out a reform of the system of state-run supply and marketing cooperatives, and thereby reduce trading costs and intermediary charges in commerce. Furthermore, through the sale of many of the small state-run enterprises, large capital funds could be obtained for the development of basic industry, in order to alleviate the pressure on the basic industry created by its structural changes, and at the same time find a new way for the adjustment of the investment structure. Moreover, through the transfer of plant property rights, merger of enterprises, and other such measures, the problem of accumulation of assets could be solved and supply capabilities effectively expanded.

From a short-term view, we must raise interest rates must higher. Considered under the aspect of economic development, low interest rates will have an extremely unfavorable effect on the economic quality of a developing country. Low interest rates will not only stimulate indiscriminate borrowing and expansion of investments, but will also prove seriously harmful to the national economy by providing a deterrent to savings and accumulations. Even more serious is the fact that low interest rates disrupt the proper substituting relationship between key elements and causes the development of the production structure to work in a way that is detrimental to full utilization of available resources. The restrictive pattern of today, with its restrictions on loans, is not a

good solution, because under the current Chinese enterprise system, banks cannot possibly recover capital from enterprises with poor earnings, so that the burden of the retrenchment is frequently borne by good enterprises.

Another view expressed at the symposium held that currency inflation is a "comprehensive malady" and requires a comprehensive cure.

1. Slowing down of production development, ensuring a well-balanced development of the national economy. Really overcoming the tendency of impatience for success and of blindly striving for high speed in economic work, and instead "pay attention to returns, raise quality, coordinate development, and achieve stable growth."

2. Restrict bank loans and currency issue. The speed of currency issue by the banks must not exceed the growth rate of state revenue. It is possible to adjust and control investment volume through credit policy and floating interest rates. Under no circumstances must increased issue of currency be used as a means to meet financial deficits.

3. Resolutely restrict institutional expenditures and stop inflationary increases in public spending. In 1987, the Central Committee decreed the "compressed air" policy, but the purchasing power of institutions for consumer goods increased 19.6 percent over 1986. This indicates that there is a strong potential for an increasing demand for consumer goods among China's institutions, which must be effectively controlled.

4. Increasing supplies. Through reform and the adjustment of the production structure and product mix, it is particularly necessary to restrict or stop production of goods in oversupply, to promote and increase production of goods in short supply as well as easily saleable goods, also to further reduce gaps in what is not yet but should be produced, to alleviate all supply-demand contradictions, and to provide a sound material foundation for the control of commodity price increases and for the control of inflation.

Analysis of Recent Industrial Growth
40060505a Beijing JINGJI RIBAO in Chinese
23 Jul 88 p 2

[Article by Song Jingong 1345 6651 2396, China Political Structure Reform Research Center, and Yu Sen 0205 2773, State Statistical Bureau: "Maintaining Our Ability To Control Inflation, and Avoiding Excessive Tightening"]

[Text] The sustained rapid growth of industrial production since 1984 indicates that China's industry is moving toward a new stage of rapid growth. In the face of these

changes in China's experience with industrial development, if we continue to rely on the empirical and theoretical hypotheses and conventional modes of analysis of the past, we are liable to misinterpret events and to commit policy blunders.

The rapid growth in industrial production stems from changes in enterprise managerial mechanisms, which are internal factors, and in the economic growth environment, external factors. Surveys indicate that in 1987 the output values and growth rates in profit tax payments of the 10,000-some large and medium industrial enterprises that have instituted contract responsibility were higher than the levels for all large and medium industrial enterprises. And the rates of growth in gross industrial output value, in profit tax receipts and in labor productivity of Hebei, Jilin, Hubei, Guangdong and other provinces in which the proportion of large and medium industrial enterprises having responsibility contracts was 90 percent or above were higher than the rates for all industry. As China increasingly opens up to the outside world and as the growth rate for its industry is increasingly conditioned by the international economy, the demand mix for its industrial final products will change, and this will make its industrial production much more responsive to the upward pull effect of any expansion of foreign demand. Since 1984, exports from processing of imported materials and components and from compensation trade have increased steadily so that the share of these activities in total industrial exports has risen from 20 to 42 percent during this period. Externally oriented economy has also promoted the development of township industry and increased the contribution of this industry to overall industrial growth. This new factor, which is still emerging, will to a large degree determine the rapidity of China's industrial growth over the next 2 years.

As for the material basis of the rapid growth posted by industry, over the past several years supply capacity for scarce resources has greatly improved. Since 1984, investment in industrial fixed capital has risen by 20 percent or more each year, and new investment has totaled nearly 300 billion yuan. This increase in investment has producing corresponding results. Growth rates for output of steel, cement, soda ash, caustic soda, 10 types of nonferrous metals and other industrial raw materials have ranged from 5 to 14 percent the past 4 years and have exceeded 8 percent during the first half of this year. The state has increased investment in energy industry, ensuring stable growth in raw coal and crude oil output and markedly increasing electric power generation. Over the past several years, following the rapid growth of industry, stocks of major producer goods and materials have become plentiful. Since 1985, closing inventories of steel have been maintained at levels of more than 200 days of supply, and inventories of such major raw materials as cement, soda ash, caustic soda and rubber have ranged between 40 and 120 days of supply. And since the beginning of this year, inventories of major producer goods and materials generally have remained at last year's levels.

Our affirmation of the rapid growth of industry by no means implies that we totally deny that problems plague our industrial development. The issue is whether such judgments contribute to the solution of the problems. Retrenchment necessary when inflation occurs. But in view of actual conditions in China, we should overreact to inflation. The price rises which so worry the masses are by no means a simple monetary issue, and reliance solely on tightening of the money supply will not necessarily resolve the problem. For the moment, we must keep up the pressure of our macroscopic controls but avoid excessive tightening. For with employee incomes hard to restrain, excessive tightening will not check inflation and instead will inhibit production, reduce revenues, increase government deficits and prove equally harmful to reform and development.

12431

Developing Enterprise Conglomerates
40060505b Beijing JINGJI RIBAO in Chinese
13 Jul 88 p 2

[Article by He Guanghui 6320 0342 6540: "Placing Great Hope in Enterprise Conglomerates"]

[Text] China's numerous enterprise conglomerates and groups must be dismantled, reorganized and recombined so as ultimately to create several tens—even a hundred—strong, large conglomerates. These conglomerates, together with large, key enterprises, will become the main forces of China's socialized mass production and the backbone of our technological progress and represent the hope for China to join the ranks of advanced nations in the world.

China's enterprise conglomerates have been developing over the past several years. Enterprises from all agencies, sectors and regions have been looking for partners, seeking to exploit the advantages of combining and organizing one conglomerate after another. New trends have also occurred in the development of existing conglomerates. First, advances in enterprise combination have begun to undermine the "rule against three types of change" (change in the delineation of enterprises by system of ownership, by administrative affiliation and by financial remittance channels). For example, the Ma Shengli Paper Group has signed contracts to take over 36 paper companies, and the Jilin Chemical Co has undertaken to absorb 10-odd chemical firms. This practice by enterprises of signing contracts to absorb other firms has not only concentrated management authority and strengthened enterprise groups but has broken from the principle of "not changing administrative affiliation." In addition, enterprise investment in and purchasing of shares of each other has engendered change in the relationships between different systems of ownership. Second, conglomerates have established financial firms and opened new channels for short-term funding within themselves. Third, conglomerate functions have steadily

expanded, and conglomerates have become more diversified and comprehensive. A typical example is the Jinshi Group of Changzhou, which includes 150-some producer enterprises and has joined with 10-odd research units and producer-good supply departments; 72 units in 3 marketing groups in the national commercial system; and vehicle stations, ports and other such units, thereby invigorating the conglomerate at each link—research, production, marketing and transport. Fourth, the conglomerates have linked research and production, and a number of conglomerates organized primarily around research and technical units have emerged. Fifth, some conglomerates have begun to orient themselves toward and to courageously advance on international markets. Most conglomerates in developed countries are transnational corporations. So by orienting themselves toward the outside world, Chinese conglomerates are beginning to display their potential advantages, and more and more conglomerates are shifting their focus from domestic markets to international ones and are striving to create name brand products and to establish international reputations. The Huanyu Group of Hebei, for example, has adopted a strategy of exported operations and employed international standards of quality for all its products, so that Huanyu televisions have entered markets in Great Britain, the Netherlands, Belgium and other counties, and last year the conglomerate set up a joint venture plant in Great Britain, thereby exploring the path to becoming a transnational firm.

The new trend in the development of China's conglomerates represents the direction in which they are headed and is indicative of their bright future. Nevertheless, we must also soberly recognize that their development, limited as it is by the current administrative system, is only at the preliminary stage and that many conglomerates are still evolving and cannot be considered true conglomerates. We must also recognize that, while we can introduce China's labor-intensive products into international markets by relying on regular enterprises and township firms, it is especially important, in terms of strategy, that, in order to develop externally oriented economy and to meet the challenge of the current technological revolution, we stress and effect the establishment of a number of large conglomerates. The CPC Central Committee and the State Council have placed great hope in large conglomerates, and the task of developing conglomerates is formidable and urgent.

To develop and improve China's conglomerates, it is urgent that we break free from the fetters of the "rule against the three changes." Comrade Zhao Ziyang has stated that our original notion of enterprise combination, adhering to the "three no change rule" and providing for looseness, was correct. But we should not tarry at this stage, for this would represent a step backward. It is urgent that we move forward and begin developing true conglomerates. Failure to advance means regressing, and failure to combine means to be loose and scattered. How we can break free from the "three no changes" is a

complicated matter requiring that we be firm and that we handle the issue carefully. Generally speaking, localities are employing the following approaches. First, enterprises sign contracts to absorb other firms. Second, enterprises institute systems of stock ownership. Third, enterprise assets are sold to other firms, a practice called merging. I believe that regions, departments and conglomerates can choose whichever of these three approaches meets their needs. When problems affecting major policy arise, the state and relevant departments should conscientiously study the problems and propose solutions as quickly as possible.

Meanwhile, we must sedulously improve conglomerate management and technology. We must make it clear that, while the technological transformation of China's industry is very important, management is even more crucial. To improve, conglomerates must first of all make breakthroughs and improvements in management, break out of the fetters of the old administrative system, establish scientific management practices and systems, and study behavioral science so as to create new corporate cultures and improve employee quality. Conglomerates using foreign capital may invite foreign experts to participate in their management. All conglomerates that are oriented to the outside world must develop quality name brand products that can compete on international markets, and it is especially important that we dedicate ourselves to creating at least one high-grade product that is high in value added and that is accepted by international society and that we use this product to lead the way for other Chinese goods to break into international markets. We must also gradually establish various levels of international marketing networks. We must realize that this work is a major undertaking that will be "the basis for 10,000 years of enterprise." Only by relying on our own strength and by creating our own name brand products and our own marketing networks can we make a fundamental change in our prolonged passive dependence on foreign marketing networks to "procure" our products for sale abroad.

12431

Enterprise Contracted Management

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No 8, 1988, pp 21-26*

[Article by Sun Xiaoliang 1327 2400 5328 and Zhang Ji 1728 7535, edited by Lin Daojun 2651 6670 0689: "Certain Coordination Problems in Pushing the Contracted Management of Enterprises"—passages within slantlines published in boldface]

[Text] The enterprise contracted management responsibility system is being pushed on all fronts. The current tasks are taking a further step in coordination, perfection, deepening and development. These four tasks are interrelated but among them "coordination" occupies a

pivotal position; without solving the problem of coordination, perfecting, deepening and development will all be greatly affected. The following several viewpoints stress the problem of coordination.

I. A Clear Understanding of the Position of the Contracted Management of Enterprises in the System Is the Foundation for the Solution of the Coordination Problem.

An economic management structure is a system formed by many essential factors which mutually play on each other and mutually restrict each other. A clear understanding of the status of the enterprise contracted management responsibility system forms the basis for correctly understanding and solving their coordination problem. To undertake the examination and study of enterprise contracted management in the system, it is necessary to understand the following points:

First, we should make an appropriate estimate of the role of enterprise contracted management and correctly determine its "anticipated value." Regarding the role of enterprise contracted management, too low an estimate or too high an estimate will produce disadvantageous results. At present, there are two tendencies worthy of attention: One believes that with the word "contracting" or "all-embracing" occupying the central stage, all problems of reform can be solved smoothly. Hence it is advocated that enterprise contracted management be made the "nucleus" or "main line" of reform of the economic structure and the "key" to guide and lead the whole situation, while all other reforms are pushed to a far corner. Such overly high anticipation is bound to lead to disappointment, because in actual matter of fact it does not have such big functions. Once it is found that its role has a limit, it is entirely possible to affect the determination and confidence in pushing the contracted management of enterprises. The other tendency believes that enterprise contracted management is "too rustic" or indigenous and too non-standard and that it cannot solve really big problems, and may even lead to certain new contradictions. Hence, it is not in favor of pushing it in an all-round manner. Seen from the present conditions, enforcing enterprise contracted management may form a new economic mechanism which makes the enterprise, through its own efforts, attain its own development. Compared with the past methods of "reducing taxes, ceding benefits and granting benefits," it may be said to have involved a change in quality. Indeed, it is a little "rustic" or "unrefined," and it is also true that it does not conform to standards. However, it is suited to the actual condition in the stage of the new structure replacing the old. Naturally, new contradictions will rise, but they can be solved. Hence, it is a realistic and workable selection and deserves to be promoted universally. On the problem of the functions of enterprise contracted management, the two extremes must be avoided. Rather a suitable middle position should be taken so that it can display the role that it is capable of.

Second, reform of the coordination of the various structures is an even more important task and no single item can force its way forward. In this system of the economic management structure, the various single management structures constitute the essential elements of the system, and mutual liaison between the various structures forms the structure of the system. The basic principle of the theory of system tells us that the functions of a system are first determined by the system's structure and only determined by the condition of the essential factors. The role of contracted management lies in improving the management mechanism of the enterprise, that is, improving the conditions of the essential factors and cannot be hoped to improve the structure of the system. That is to say: Regardless of how perfect the enterprise contracted management responsibility is, it has only limited effects on improving the functions of the whole economic management structure. Hence, when pushing enterprise contracted management, efforts must be devoted to reforming the coordination of the various structures and we must not allow enterprise contracted management to singly take its course. Rethinking on the progress of the economic reform in the past 9 years from the angle of methodology, a very important lesson we have learned is that attention has been paid only to improving the stature of the essential factors and not to improving the system's structure. Very frequently a reform proceeded ahead singlehandedly and lacked a supporting general program of reform coordination, resulting in the system's structure losing its balance and confusion in the operation mechanism. In the current promotion of the enterprise contracted management responsibility system, we must learn from this lesson. This is precisely stressing the real significance of "coordination."

Third, enterprise contracted management not only needs coordination in other reforms but also can create the conditions for other reforms. And only through consciously making use of these conditions can we push forward the reform of the entire economic reform. If a good job is performed in contracted management, there will be two results: 1. Pushing the enterprise to improve the economic benefits and thereby improving the finances of the state; 2. Pushing the readjustment of the structure of the products and thereby improving the supply and demand conditions of certain urgently needed materials. Thus it will be possible to create a relatively lenient and lax environment as well as an advantageous trend for reform of the price structure, materials structure, taxation structure and investment structure. Conversely, reform of these structures can create advantageous conditions for further improving the enterprise management mechanism. By so doing, enterprise contracted management will provide an opportunity for the reform of the entire structure to enter into a new stage. This is a contribution which can possibly be offered by enterprise contracted management to the whole situation of economic reform, and the key lies in whether we can consciously utilize the opportunity and suitably push forward other reforms. At present, although enterprise contract management and the investment,

materials, prices, and finance systems are all carrying out or fermenting reform, yet as far as the mutual relationship between the various systems, the questions are what effect they have on each other, what conditions can be created, and how these conditions can be utilized while still lacking the necessary research and knowledge. To a certain degree, the reforms are being carried out in an isolated manner. Much work will still have to be done to reach the stage of reciprocal cooperation and coordination.

II. Correctly Determining the Target of Delivery of Proceeds Requires the Coordination of a Scientific Method.

The results of the contracted management of enterprises are determined by many factors. But scientifically determining the delivery of proceeds of the contracted target plays in it a role with important bearing.

The present method of determining the delivery of proceeds of the contracted target may be called the "base figure method," that is each enterprise's delivery of the preceding year (or the past 3 years' average) is taken as the base figure which determines the contracted target of proceeds to be delivered. This method gives rise to 2 problems: The first is an originally well-managed enterprise's contracted target is high because of its high base figure and hence its profit retention is small; whereas in the case of a poorly managed enterprise, because of its low base figure, its contracted target is low and in contrast its profit retention is high. This is so-called "whipping the fast ox" which results not only in not encouraging the enterprises to create more profits and taxes but encouraging it to "go slow" so as to obtain a low base figure. This obviously contradicts the original purpose of pushing the enterprise contracted management system. The second is that in the case of enterprises producing products of high price and high profit, their profits and taxes and grow easily and hence they can derive more benefits. On the other hand, enterprises producing products of low prices and slim profits will find it relatively difficult to increase the profits and taxes, and no matter how well they manage the enterprise they are at the losing end. Thus, because of the intervention of twisted prices, the demarcation line between good or bad enterprise management is confused, injustice in distribution is caused, and two consequences are thus formed: 1. Damaging the enthusiasm of those enterprises producing products of low prices and slim profits; and 2. Making those enterprises producing products which are low in price but are sorely needed by society to turn to production of other products. This tends to aggravate the irrational character of the structure of products. It obviously goes against the original purpose of pushing the enterprise contracted management.

This situation illustrates that despite that the direction of the reform of the enforcement of the enterprise contracted management system is a correct one, if a scientific and concrete method of coordination is lacking, its

positive role could be eliminated and results contrary to the original hopes might arise.

The "coefficient" method rather than the "base figure" method may be used to solve this problem. In this way, the contrasted target for proceeds delivery may be determined.

The base figure method necessarily takes up the practice of "whipping the fast ox" because it employs each enterprise's "past" economic benefits as a yardstick to measure the "present" economic benefits. Hence, it can only illustrate a vertical comparison between the present and the past of an enterprise to show whether the economic benefits have increased or decreased and cannot denote the lateral comparison of different enterprises as to which enterprise reaps good economic benefits and which enterprise shows poor benefits. On the other hand, the purpose of enforcing contracting economy is precisely to enable a lateral comparison of different enterprises, to enable those with good benefits to obtain more and to make those with poor benefits obtain less. Obviously the "past" cannot be used as a yardstick to measure the "present." It is necessary to find an objective yardstick to measure the enterprises. And this yardstick is the average economic benefits of the same industry or trade.

Economic benefits are a comparison of the input with the output. The interest and tax rate on funds can reflect the results of comparison between materialized labor's input and output; the interest and tax rate on salaries and wages can reflect the results of comparison between the input and output of live labor. Hence, the average tax rate on funds and the average interest and tax rate on salaries and wages of the same industry and trade may be employed as the target. These rates reflect the average economic benefits of the same industry and trade.

With the target of the average economic benefits of the same industry and trade in hand, we can use it to measure and compare each and every enterprise's economic benefits as being high or low. Comparison of each enterprise's interest and tax rate on funds with the average interest and tax rates on funds of the same industry or trade may be called the "coefficient of benefits on funds;" comparison between the interest and tax rate on the salaries and wages of each enterprise may be called the "coefficient of the benefits of salaries and wages." In order to facilitate actual application, it is needed to use the weighted average method to form the two coefficients of benefits into one "coefficient of economic benefits." But then how are we to separate the weight for the 2 benefit coefficients? Comrade Yang Tuan [2799 0957] of the Beijing Economics Academy, using the "Cooper-Douglas" function method, analyzed the statistical figures of the enterprises under the system of ownership by the whole people from 1957 to 1981 and found that in these 24 years the result of the increases in funds and labor force caused an increase of 0.08672 in the interest and tax index of which the increase in funds provided 70 percent and the increase in labor force

provided 30 percent. On that basis, it was determined that the weight for the coefficient of benefits from funds should be 0.7 and that the weight for the coefficient of benefits from salaries and wages should be 0.3. The formula for computing the coefficient of economic benefits of each enterprise should be as follows:

The formula for computing the coefficient of economic benefits of each enterprise should be as follows:

$$\begin{array}{lcl} \text{interest and tax rate} & & \text{interest and tax rates} \\ \text{on funds of an enterprise} & & \text{on salaries and wages} \\ & & \text{of an enterprise} \\ & & \text{of an enterprise} \\ \left(\frac{\text{average interest}}{\text{average interest and tax rates on funds}} \times 0.7 \right) & + & \left(\frac{\text{average interest and tax rate of salaries and wages of same industry and trade}}{\text{average interest and tax rate of salaries and wages of same industry and trade}} \times 0.3 \right) \end{array}$$

From this it can be seen that the essence of the coefficient of economic benefits is the comparison between the economic benefits of this enterprise with the average economic benefits of the same industry and trade. It is the result of using the yardstick of the average economic benefits of the same industry and trade to measure the economic benefits of the enterprise concerned. Hence, by means of the coefficient of the economic benefits, we can clearly compare the economic benefits of different enterprises.

Fixing the contracted target for delivery of proceed on the basis of the coefficient of economic benefits can solve the problem of "whipping the fast ox," and achieve the results of enterprises with good benefits getting more and enterprises, with poor benefits getting less. In addition, to a large extent it can remove the intervention from the factors of twisted prices. The concrete measures are:

- (1) The state, based on total volume balancing and the financial condition fixes the "per capita base-permitted retention amount." This is a macroeconomic regulatory parameter, its role being to control the distribution of profits between the state and the enterprises;
- (2) Find out each enterprise's per capita actual retention of profits. The formula is: Base-permitted retention amount multiplied by the economic benefit coefficient of the preceding year, the role being to manifest the differences in the economic benefits;
- (3) Find out the gross amount of profit retention of each enterprise. The formula is: Per capita actual profit retention amount multiplied by the coefficient of economic benefits of preceding year;
- (4) Find out the contracted target for the upward delivery of profits. The formula is: Realized profits of preceding year minus computed gross amount of profit retention.

Currently there are still certain actual problems in wholly depending on the economic benefit coefficient to determine the contracted target. The principal one is that those enterprises whose economic benefits are especially low, due to the great disparity, dare not or do not want take up contracting. For this reason, a sort of transitional method may be adopted: First take the economic benefit coefficient as the basis, revise and readjust the base figure for the delivery of profit and tax of the preceding year; then take the readjusted base figure as the basis and determine the contracting target. In its actual application, there may be 3 different situations: (1) In certain enterprises, the economic benefit coefficient of the preceding year equals "1"; in such a case no revision is needed and the contracting target may be determined according to the base figure of the preceding year; (2) In certain enterprises the coefficient of economic benefits for the preceding year is larger than "1," in such a case the base figure should be adjusted lower and the readjusted base figure should form the basis for determining the contracting target; and (3) In some enterprises, the economic benefit coefficient is small than "1"; in such a case the base figure should be appropriately adjusted higher and the readjusted base figure should form the basis for determining the contracting target.

Obviously this method cannot make a clear-cut solution of the problem of "whipping the fast ox," and cannot fully manifest the principle of justice in distribution but it has the following strong points: (1) On the one hand it can have regard for the actual situation and on the other hand it can reduce the degree of "whipping the fast ox"; (2) Readjustment of the base figure does not solely rely on subjective wishes but there is the coefficient of economic benefits to serve as objective basis; (3) This objective basis not only can clarify the direction of readjustment but also can serve as reference for whether the extent of readjustment should be lower or higher; (4) The readjusted base figure may not be fully rational but since it has been made clear, those enterprises with poor economic benefits will know of the disparity and strive hard to catch up; and (5) Making a start of shifting from contracting according to the "base figure" method to the track of contracting according to the "coefficient" method. Thus is laid the groundwork for contracting according to the economic benefits from now on.

The coefficient of economic benefits is computed on the basis of the average profits and tax rate on funds and the average profits and tax rate on salaries and wages of the same industry or trade in the country. However, because in the case of enterprises located in the frontier areas and far away from cities and towns, and their poor objective conditions in regard to communications and transport and production cooperation, when compared with enterprises of the same operation and management level in superior locations, their profits and taxes are necessarily low and therefore they will affect the coefficient of economic benefits. Regarding this locality grade-differential income caused by different objective conditions,

there must be a revision method. Comrade Yang Nian-chun [2799 1628 2504] suggested a revision method as follows: Dividing the rate of profits and taxes of all the enterprises in this province, municipality or city, or autonomous region with the average profits and tax rate of the enterprises of the whole country will yield the coefficient (K)- and use (K) to divide the economic benefits coefficients of the various enterprises. Then, it will be possible to eliminate, to a very large extent, the effects of locality graded-differential income on the economic benefit coefficients.

III. Effective Transmission of the Contracting Mechanism Requires the Coordination of Internal Reform of the Enterprises.

Following the enterprise enforcing contracted management, the majority have achieved good results. But some have shown not exactly ideal results. They have failed to arouse the enthusiasm of the staff members and workers and their subordinate units. This has made it impossible to realize the decision made on schedule and the time element is lost. In some of the enterprises, although their branch plants and workshops do not have sufficient work, they have nevertheless failed to initiatively turn to society and seek tasks from the outside. Also there are cases where the workers are found in their posts but do nothing and cannot complete their assigned tasks according to schedule. This has affected the reputation of the enterprise and even caused the loss of the market. There are cases in which despite the fact that savings in material consumption are entirely possible, losses and wastes are incurred just the same.

The effects of enterprise contracting are principally manifested through improvement of the management mechanism and the enthusiasm of the various sides being aroused. Unfortunately now in certain of the enterprises after contracting, the enthusiasm of the their various units and staff members and workers is still not aroused. This shows that definitely there exists the problem of the progressive reduction in the effects of contracting.

The progressive reduction in the contracting effects is principally the result of the interruption in the transmission or working of the contracting mechanism.

That contracted management can arouse the enthusiasm is because through contracting an economic mechanism can be formed. The enterprise, having contracted from the state, needs to use various means to have this mechanism transmitted to the lower levels; if the transmission is disrupted, then the effects will be progressively reduced. In some of the enterprises, their internal contracting has not followed up and there is a change only in the situation of the "enterprises eating from the same big pot at the expense of the state" and not in the situation of the "staff members and workers eating from the same big pot" at the expense of the enterprise. Thus, interruption in the transmission causes the gradual

reduction in the effects. Some staff members and workers have complained: "When an enterprise has done a good job, the leadership gets the credit and promotion but when an enterprise has done a poor job, one person alone takes up the whole big burden. Under such conditions, the contracting effects will naturally be gradually reduced."

The central contents of the contracting mechanism are first, compensation to labor and contribution from labor must be directly linked; and second, responsibility, power and interest must be counter-balanced, otherwise the three cannot restrict each other. To talk now about the "combination" of responsibility, power and interest is correct but is still insufficient. Responsibility, power and interest not only must be combined but must be "counter-balanced," that is, that size of the interest requires a corresponding amount of power and responsibility. The concrete form and method of the transmission of the contracting mechanism must be determined by the different special features of different labor posts. But regardless of the concrete form and method to be adopted, these two contents must be concretely manifested, otherwise it will not be possible to realize the transmission of the contracting mechanism. The existing internal contracting form of the various enterprises must be examined according to this principle so as to determine whether it should be retained or given up. We should insist on and develop those in harmony with this principle while those not in harmony with this principle must be revised and perfected.

The transmission of the contracting mechanism has the two large categories of direct transmission and indirect transmission. Direct transmission, such as whole staff contracting, refers to the entire body of the staff members and workers of an enterprise constituting the main contracting body to contract from the state; indirect transmission, such as level-by-level contracting is first of all the enterprise's operator acting as the contracting main body to contract from the state and then grant contracts to the lower levels. Generally speaking, the degree of the directness in contracting is in exact proportion with the transmission efficiency rate of the contracting mechanism. But direct transmission also has its limited character. It needs to follow the special features of the different work posts and make a suitable selection accordingly. For example, piecework wages really are a sort of concrete form of the staff members and workers directly contracting from the enterprise's operator and hence can more readily regulate enthusiasm. But work which follows a working procedure can hardly carry out the system of piecework wages. Regarding this problem we cannot merely consider the transmission efficiency rate of the contracting system, but must also consider other relevant factors.

In the transmission of the contracting mechanism, the more thorough the better. In the interior of an enterprise, only through laterally contracting to the brim and vertically contracting to the bottom can we stimulate and

invigorate each and every cell and display the contracting effects to the maximum. However, lateral contracting to the brim and vertical contracting to the bottom can also form internally in the enterprise the pluralism of interest main bodies and power main bodies, thereby bringing about new contradictions: 1. Each and every interest and power main body follows its own interest demands and employs its own autonomous power to carry out its activities. This is a definite contradiction to the unified command in production of modernized enterprise. Let us take the example of an iron smelting enterprise enforcing on its subordinate smelting plants the contracting method of "independent business accounting, self computation of profits and losses and distribution according to the amounts of profits and losses." In the internal cooperation, the planned price of each ton of smelted iron is 900 yuan but the branch plant in its cooperation with the outside the market price of each ton of smelted iron is 1,500 yuan. Due to the branch plant adopting the direct linking of the size of the profit with remuneration to labor, naturally it tends to accept the cooperation task with the outside and does not wish to accept the internal cooperation task. Result: "The outside edging out the inside" and the normal organizational production of the enterprise is affected.

There are two lines of thought on solving problems of this kind: One is abolishing inside-the-plant contracting altogether and making the enterprise resume the status of an interest main body and power main body. By so doing, production command is facilitated but the contracting effects are at the same time lost. The other is introducing into the plant's internal cooperation the principle of labor exchange at equal quantity and changing the plant's internal cooperation in labor and in kind from "supply relations." This method is different from not at all considering the internal adjustments in observance of the law of value and is also different from commodity exchange at equal value in cooperation with outside the plant. In reality, it simulates the internal exchange of labor at equal quantity in commodity exchange and can, to a large extent, solve the contradiction between pluralism in the interest of main bodies inside the plant and unified organizational command in modernized production.

In order to ensure that there is effective unified command under the conditions of internal contracting inside the plant, aside from introducing the principle of labor exchange at equal quantity in the plant's internal cooperation, there should also be a scientific division of work in the management decision-making power of the enterprise and its subordinate units, thus to form an internal rational decision-making structure. Just as there must be a "suitability point" in expanding the decision-making power of an enterprise, a "suitability point" is also needed in expanding the decision-making power of the various units internally in the enterprise. It is not that the larger the decision-making power the better. This "suitability point" in enterprises with different production special features should be different one from

the other. Generally speaking, in the case of products like motor vehicles which require the assembly of many separate parts and also demand a large-scale production and balanced production, the independent character of the production activities of the various units subordinate to the plant is relatively small, their cooperation and liaison with each other should be relatively tight and close and the centralized power of the enterprise should be larger while in the case of enterprises producing simple products and engaging in small-scale production the enterprises' centralized power should be smaller. Even inside the same plant, where it is necessary to follow the differences in the production features of the individual workshops, the degree and scope of the decision-making power should also be determined differently. The so-called "rational decision-making structure" calls for on the one hand ensuring unified command in production, and on the other hand, avoiding the over-centralization of decision-making power to cause the reduction in the contracting effects. The demands on these two sides require mutual restriction to attain the best results.

IV. Solving the Contradiction Between Enterprise Contracting and Improvement of Structure Needs the Coordination of the Floating of the Standing Volume of Assets.

For a long time, our country's allocation of the essential factors of production has exhibited two big and difficult problems: One is that an enterprise can only "live" and not "die," and even though it has been a losing proposition for a long period and its assets cannot offset its liabilities, there will be governments at various levels subsidizing it or making "blood transfusions" to it so as to maintain its survival. The other is that the standing volume of each enterprise's assets can only be increased but cannot float. Even though the assets have stayed idle for a long time, there is no mechanism that can make its assets flow to other enterprises in need. The result of the joint working of these two problems is that the renewed organization of the essential factors of production meets with an exceedingly large impediment. Betterment of the structure thus can only be made through regulating and increasing the quantity of the assets. The immobility of the available assets again from two directions restricts the effects of readjusting the structure from quantitatively increasing the allocation: 1. Increasing the quantity of allocation can only support the enterprises needing development and cannot abolish the enterprises which do not deserve to survive; at the same time the continued existence of these enterprises as a whole affects the betterment of the structure. 2. Maintaining the existence of enterprises which need not survive requires a fixed amount of financial power, whereas use of this financial power could very well have served the needs of the enterprises that must develop. Because the increased quantity in assets cannot be utilized rationally, it not only cannot play a positive role in bettering the structure but even may play a passive role.

What is worthy of note is that following implementation of enterprise contracted management, each and every enterprise is required to further develop on the existing basis. This in effect is succeeding to the old disease that an enterprise can only "live" but not "die." Also, the use of the increased quantity of assets will of necessity follow the existing pattern of the allocation of the important factors of production. If this problem is not solved promptly the structure not only cannot be improved but also may be worsened.

Solving the contradiction between enterprise contracting and improvement of the structure cannot solely depend on perfecting the contracting system itself. Reliance must be placed on the coordination from relevant reforms such as pushing the floating or mobility of the existing volume of assets. Following and circulation of the existing volume of assets has two layers. The shallow layer of the circulation of the standing volume is through an enterprise contracting another enterprise and an enterprise leasing another enterprise to realize unified management; the deep layer of circulation of the standing volume is through the merging of enterprises and joining shares in management thus realizing the unification of assets.

Under the conditions of the unification of management, contracting (leasing) enterprises can readjust the direction of the products of the contracted or leased enterprise. At this juncture, the standing volume of the assets of the contracted (leased) enterprise, though not having made any circulation in space, yet in reality has shifted its capacity of producing a certain kind of products to producing another kind of products, thus realizing the movement of the standing volume of assets with respect to the direction of usage. Hence, the realization of unification of management through one enterprise contracting for (leasing) another enterprise not only can solve the contradiction between enterprise contracting management and improvement of the structure but also can enable contracted management to further deepen and develop.

In many respects, readjusting the direction of products also requires the readjustment of equipment, personnel, factory premises and other essential factors of production. If only unification of management is concerned, due to both sides being independent legal persons, it is not possible to carry out the all-round and renewed organizing of the essential factors of production. To realize the all-round reorganization of the essential factors of production, it is necessary to carry out the unification of assets. Thus, the standing volume of assets not only can effect movement in the direction of utilization but also can realize circulation in space. This is a deeper layer of the circulation or movement of the standing volume of assets.

Unification of assets may be realized through the form of the merging of enterprises, that is, that owners of an enterprise of a strong stature can buy over the assets

ownership right of an enterprise of a weak stature; there is also the form of unification through participating in management by means of shares, that is, the owners of the assets of an enterprise of a weak stature take the enterprise's assets as share funds and join the shares of the enterprise of a strong stature. Under such conditions, the owners of the assets of the weak enterprise can only act as shareholders and receive share dividends but cannot directly participate in the management.

Seen from the needs of reorganizing the essential factors and improvement of the structure, unification of assets is better than unification of management. However, considering people's realistic and psychological bearing capacity, it is not possible to reach merging of enterprises by one step and realize the unification of assets. If unification of management is first taken as a transitional measure, the advantages may be more than the disadvantages. People have likened this procedure as "in love" first, "marrying afterwards" which is indeed a close resemblance. If in the "in love" stage both parties are satisfied, then they can proceed to getting married; otherwise, other "lovers" can be found.

In actual life, the contradiction between enterprise contracted management and improvement of the structure has already appeared. To resolve this contradiction there are many methods. One realistic and workable selection is through the unification of management and unification of assets to realize the movement or circulation of the standing volume of assets.

The cooperation problem of enterprise contracted management is an important as well as a complex one. It needs further study from an even wider angle, in deeper layers, and at from an even higher stand point. The above points relate to only a portion of the problem.

Increasing Management Rights of Enterprises
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[Article by Ping Xinqiao 1627 2450 0829 and Liu Wei 0491 0251: "Reform of Ownership, Management Rights"]

[Text] After almost a decade of reform, the property relations of China's urban state-owned enterprises have changed. Briefly, small enterprises have striven to redefine property relations using such methods as "transformation, conversion, leasing, contracting, and selling." Large- and medium-sized enterprises have mostly reformed themselves by separating ownership from management and adopting contracting. At present, there are no sharp differences of opinion regarding small enterprise reform. But people are deeply divided over the reform of property relations in large- and medium-sized enterprises. The question is: If we continue to separate ownership from management, will it lead to success?

In reality, the structure of legal, power, and property relations required by market exchange in a modern commodity economy is far more than a dual ownership right structure. At a minimum it must be a three-fold structure consisting of ownership rights, property rights, and management rights. The main purpose of this article is to argue that the separation of ownership right and management right cannot be discussed in isolation from property right. Property right involves all the risk, responsibilities, and power in market exchange. Accordingly, what lies at the heart of the effort to reshape socialist microeconomic mechanisms is this question: How do we use the new property right system to determine the exchange boundaries of any individual or entity in such a way that the individual or entity will not be able to take risks using the property of another individual or of society without being held liable?

1. The Modern Commodity Producer and Property Rights

Strictly speaking, "property rights" can be defined broadly and narrowly. Defined broadly, it means two things, namely ownership rights and claim. The former refers to the possession of a piece of property and the interest demands related to the act of possession. The latter refers to the control over the property in market exchange. The former is static. The latter is property relations in action, an extension and expression of the former in the market. Defined narrowly, property right is in effect a claim, that is, the embodiment of ownership in market exchange. In essence, it is production-related control over and responsibility for a property. In this article, property right is defined narrowly for the following reason. People usually equate ownership right with property right, ignoring the connotations of property right as a determinator of market exchange boundaries. Already this oversight has seriously impeded reform intensification in China. As we see it, the difficulty in understanding and reshaping property relations lies not with discussing the possession of property, that is, what people usually call ownership right, but with probing the boundaries of market exchange and turning property into an operational power in the commodity economy, that is, property right defined narrowly. In fact, the kind of property right that has concerned Western economists since Gao Xi invariably includes ownership right and claim, and the core of claim is the right structure in market exchange. Claim is related to contract, while ownership right is related to claim. The two are different, but both are part of property right as broadly defined.

The modern commodity producer differs from his classic counterpart precisely because as far as the former is concerned, ownership right no longer amounts to property right, whereas with the classic entrepreneur or commodity producer, ownership right and property right were one and the same thing.

So-called property right is the expression of ownership right in market relations. In essence, it demarcates an area that must be established as a definite right in the market exchange process. Therefore, property right must include at least the following four basic attributes: 1) As a particular right expressed in market relations, the existence of property right is predicated on the commodity economy. In other words, property right does not exist in the natural economy or in the product economy even though ownership systems and ownership right exist in those economies; 2) Property right is realized in market exchange. Property right sets the rules for the transfer of property on the market. The price or condition for such market transfer is market price. Thus the substance of market price movement is property right movement; 3) As a rule for property transfer, property right has one basic requirement: exclusiveness. Property right defines the boundaries of such exclusiveness. While it does not necessarily determine what a market player can do, it must point out what it cannot do. 4) Market exchange is always interactive and complex. Thus the establishment of the boundaries between property right and exchange must take the form of a contract between enterprises. This kind of contractual relationship is also based on law. It follows that the owner of property right must be a legal person. In the modern commodity economy, the basic embodiment of property right is the enterprise operating as a legal person.

We can thus see that the difference between property right and ownership right is that you could have ownership right, but not property right, without a commodity economy. Even in a commodity economy with well-defined ownership right, the property right-exchange boundaries may not be well-defined. Thus we can say that property right is ill-defined. Therefore, while ownership right emphasizes the ultimate possession of property, property right stresses the laws and regulations we must adhere to in the process of exchange.

Nor can property right be equated with management right. If property right defines the boundaries of market exchange and lays down the rules of exchange, then management right is the right to make decisions for the basic purpose of property appreciation in accordance with property right regulations and within the limits set by property right. Thus management right cannot but include at least the following:

1) Management right is based on but different from property right. Management right is the right of a legal person to operate as a legal person. But since the status, position, and power of a legal person is determined by property right, its activities must not overstep the limits of property right. Otherwise, either the original property right itself is destroyed by the property right system, or management right itself is refuted by property right. Let us take a graphic example, a basketball game. Property right defines the boundaries of the basketball court and determines the dividing line between offense and defense (in effect defining the rights and responsibilities

of the two opposing sides). Management right, on the other hand, enables the players to bring their creativity, imagination, and skills to bear and exercise all their rights as a group provided that they observe the rules of property right. If they violate such rules, they will be deemed to have broken the rules of the game. As a result, either they will be penalized or the rules (the limits defined by property right) will be rewritten.

2) The basic objective and responsibility of the exercise of management right is property appreciation. The direct criterion for determining whether or not management right has been exercised successfully is the extent to which property right has been augmented.

3) The basic substance of management right is market decision-making power. Its levels are more obvious and more tangible than those of property right and are closer to market activities.

Property right is also different from ownership system because the basis of property right, ownership right, is itself different from ownership system. Ownership system refers to the economic system dealing with property relations and essentially belongs to the socioeconomic base. Ownership right, on the other hand, refers to the realization of the right of ownership system under the law and essentially belongs to the social superstructure. As for property right, it is the expression of ownership right in a specific environment. Thus property right turns human property relations in market exchange, whose economic base is ownership system, into a legal person, thereby enabling ownership system, through the legal form of ownership right, to draw up practical, concrete, and clear rules for market exchange. If ownership system is an abstraction of human property relations and ownership right the legal affirmation of this abstraction, then property right endows the ownership system affirmed by ownership right a vehicle, making ownership system into a legal-person right that can be controlled.

This seems to suggest that ownership system, ownership right, property right, and management right are inherently connected with one another. Ownership right differs from ownership system but is also based on it. Property right differs from ownership right but will ultimately lead to it. Management right differs from property right but is also premised on it. That ownership system, ownership right, property right, and management right each occupy well-defined areas is but a reflection of the different levels of human economic activities, representing a step-by-step progression of such economic activities in a commodity economy from abstract property relations to market exchange activities.

Thus the enormous changes in ownership system wrought by a social revolution absolutely cannot replace the restructuring of property right under the new economic system, let alone the clarification of operational property right. Similarly the restructuring of property

right required by reform may touch upon ownership system, but this does not necessarily mean that the new ownership system created by a social revolution will be rejected. The clarification of property right certainly cannot replace the full exercise of management right (because management right itself has its own special independent substance and is premised on the existence of a stratum of entrepreneurs—the group that wields management right). Similarly, given ill-defined property right, the exercise of management right is necessarily confused, ineffective, and perhaps even harmful. Not only is this the conclusion of an abstract theoretical deduction, but it is also an objective fact brought to light by economic history. Thus it is not difficult to see why the property right issue has become the central focus in economic theory and practice in China 9 years after reform began.

2. Ignoring Property Rights Is a Basic Flaw in the Reform Philosophy of the Separation of the Two Rights.

Basic to the theory of the separation of ownership right and management right is the idea that while reform must never undermine ownership right, ownership right may be and needs to be strictly separated from management right. In the process of separation, we should weaken the restraints imposed by ownership right on management right and strengthen the independence of management right, thereby creating for the entrepreneur even more room to maneuver and nurture and bring out his creativity, adventurism, and dedication. In making this point, people often cite as evidence the indispensable role played by the stratum of entrepreneurs in corporations and the economy as a whole in modern Western countries.

No doubt it is but right to adhere to the public ownership system. But the point is that in a commodity economy, inseparable public ownership is actually unexchangeable and hence not operational. Only by delineating limits can we make ownership right genuinely operational through market transfer and exchange and become a basic property right permeating every sector and every link of the socialist commodity economy. Otherwise, public ownership will merely remain a non-functional static abstraction, its economic function being to require all state enterprises to turn over 100 percent of their profits to the state.

Does a commodity economy exist under public ownership? Can a commodity economy mesh with public ownership? If the answer is yes, then the ownership right in public ownership must become part of market exchange and the ownership right which thus becomes a part of market exchange is property right. Before this kind of property right enters the market, it must be separated and boundaries drawn. Otherwise, neither exchange nor effective resource allocation can take place.

No doubt it is equally necessary to give entrepreneurs more room to maneuver and nurture and bring out their talents institutionally. But the point is that there must be

limits to the freedom of the entrepreneur. Moreover, such freedom must be defined beforehand. The restraints on entrepreneurial freedom may take the form of a variety of regulations and policies. But the most fundamental source of such restraints is the property system. According to the "theory of the separation of ownership right from management right," property right is equivalent to ownership right and formal ownership right and management right are simply antithetical. It also stresses restraints on ownership right. How then do we restrain management? Can we depend on the manager's dedication, ambition, creativity and even ethics and conscience to successfully ensure that he will behave rationally? If not, the result will resemble what Marx said in "Kapital," that some people "use society's property, not their own, to take risks." As a manager and operator, the entrepreneur assumes many responsibilities, but not that of being held liable for property losses incurred as a result of risk-taking. This is because the entrepreneur operating as an entrepreneur is not the owner of the property in question. Thus as ownership right weakens restraints on the enterprise, the entrepreneur is given the right to take risks but not the ability to assume risks. In case of bankruptcy, he may be held administratively responsible and at worst his reputation may suffer. But he will not be held liable for the property losses. Yet the person who can be held liable, the owner, is not in a position to restrain the entrepreneur effectively. This imbalance between right and responsibility cannot but threaten the normalization of enterprise behavior in terms of property system. In fact, this is the most striking flaw in the separation of ownership right from management right.

This flaw is basically incompatible with the functioning of the modern commodity economy for the following reason. In a modern commodity economy, sharpening competition and ever-changing exchange relations heighten risk and uncertainty to such an unprecedented degree that they have in effect added a new unwritten rule to the exchange process: he who cannot be held liable for property losses cannot control property. The essence of property right is the restraint on risk-taking.

In a socialist commodity economy, ownership right cannot directly restrain entrepreneurial behavior either. If ownership right is in the hands of the state and when ownership right directly regulates entrepreneurial behavior, the inevitable result will be state intervention in enterprise operations. When ownership right is in the hands of a large collection of private individuals, it is also impossible in reality for every member of the group of private individuals to exercise his right to directly restrain the entrepreneur. In the case of large- and medium-sized enterprises, the solution is for society to create forces to control property right and restrain enterprise behavior without, however, allowing ownership right to directly restrain the enterprise. The capitalist economy has chosen the share-holding system and the system of board of directors as vehicles of property right

to serve as a bridge between ownership right and management right. Is it unnecessary for the socialist commodity economy to have an intermediate organization restraining the risk-taking behavior of the enterprise?

Clearly, it must be acknowledged that there does exist even under capitalism a host of capable and dedicated entrepreneurs who have no assets of their own. And their achievements have been striking indeed. But how does this kind of entrepreneur come about? Let us leave aside the element of chance in the entrepreneur's success story and look at the psychology of the modern commodity economy, which he epitomizes. This psychology must be based on a particular economic system. It is not so much a case of the entrepreneurs driving modern capitalism as a case of the restraints of modern capitalist property on management right shaping the personality of the entrepreneur. We can say that without these restraints, the best and brightest of modern business managers would never have emerged. On the contrary, a bunch of "prodigals" could very well be in their place today.

The enterprise contracting system, a product of the philosophy of the separation of ownership right from management right, lacks precisely a vehicle for the independent personification of property right. In the process of separation, if we emphasize the direct restraining effect of ownership right, we would have difficulty overcoming in a fundamental way the traditional system's direct intervention in enterprises. If we emphasize the independence of enterprise management right, we would in effect be dividing state properties among enterprise leaders, which is clearly unjustifiable, or among the workers, which would be no different from worker self-management in Yugoslavia. The basic reason for this dilemma is that there lacks an intermediary between ownership right and management right. Consequently, we can ensure neither the independence and operating boundaries of management right nor the effective restraints of ownership right on management right. Apparently we may be able to revitalize enterprises by weakening ownership right and strengthening management right, but behind the vitality thus acquired lurks a grave danger that may undermine the socialist commodity order at its core and hence destroy economic efficiency overall.

3. Blueprint for Achieving the Ideal Property and Power Structure in a Socialist Commodity Economy

How do we institutionally eliminate the practice of using the property of society, of another individual, or of another unit to take risk without, however, assuming property responsibility, or being unable to assume such responsibility? Fundamentally, this requires a restructuring of the property relations in a socialist commodity economy. Accordingly, we must begin by sorting out a number of principles to guide the restructuring of the property right structure. 1) Socialist public ownership must not be undermined. 2) Abstract ownership by the whole people must be

transformed into a right that can be exercised by a commodity economy. Separate ownership right from property right. On the one hand, this separation must be premised on the recognition of ownership right, that is, on an absence of the denial of ownership right. On the other hand, we should be able to transform ownership right into property right; in other words, ownership right manifests itself as an exchange right (property right) on the market. The owner is not necessarily able to continue to control his property in market exchange. Instead, the owner of property right should be the one directly controlling properties. Of course, property right is based on ownership right and is subject to it. Also, ownership right expresses itself as interest demand of the fruit of economic activities. 3) Property right restrains management right. Property right is a direct prerequisite for regulating management right. It lays down the boundaries for property exchange between enterprises. Moreover, it assumes the natural responsibility of taking risk. Management right can be only so independent as property right allows it. 4) Not only must ownership right, property right, and management right be separated, but there must be a vehicle, namely, personification. Separated and personified, ownership right, property right, and management right must then be organically joined through socialist market mechanisms.

Accordingly, we have worked out the following blueprint for the property right structure in a socialist commodity economy:

Ownership right (that of large- and medium-sized enterprises) should be clearly defined. It should not be fuzzy or weakened. Instead it should be transformed. Ownership right should belong to the state (as representative of all workers), to the collective (as representative of some workers), and to the individual (as a self-employed worker). Under special circumstances, ownership right may belong to a foreign businessman in part or in whole. In a commodity economy, ownership right can be neither tangible nor abstract. Instead, it should be monetarized, meaning that it should enter the market in the form of marketable securities (share-holding system). In the process it will become an operating economic power that will function in the market institutionally, ensuring the circulation and reallocation of resources.

Property right should belong to the enterprise, not to the entrepreneur or worker, but to its board of directors. As the embodiment of enterprise property right, the board of directors represents the interests of the shareholders. It should consist of those shareholders who have substantial share holdings and are therefore better equipped financially to take risk. The mission and responsibility of the board of directors is not to dictate entrepreneurial behavior by virtue of the ownership right of the directors themselves. Instead, it is to represent the interests of all owners and make decisions accordingly. Armed with assets, the board is able to take risk. While it sometimes may not be able to assume the liability of all property losses, it must be the first to assume major liability.

Management right should belong to the factory director (manager). The limits of management right are determined by property right. A manager cannot be directly accountable to all owners, but only to the embodiment of property right (the board of directors). The factory director (manager) does not and, strictly speaking, cannot, assume the responsibility for property losses incurred as a result of risk-taking. He is responsible for the consequences of how the enterprise is run, but his liability is limited to a decline in social status, reputation, and income. He cannot be held responsible for property losses. When the limits of property right are well-defined, when it is clear who is the main responsible party, and when property right clearly defines management right, the factory director (manager) is free to make operational policies independently.

If the above blueprint is established in theory, we cannot but have to face the following two issues: 1) If the ownership of large- and medium-sized enterprises rests with the state, the collective, or the individual, would this undermine socialist public ownership? In our opinion, the most basic essence of socialist public ownership is neither the state appropriating properties as representative of the entire population nor every individual appropriating the means of production. (When something is owned by everybody, it is owned by nobody.) The essence of socialist public ownership is that it excludes two situations. In the first situation, an individual uses his property to appropriate another individual's surplus labor without compensation. In the second situation, one uses the property of society or another person to take risks, but without assuming responsibility for such action. If we firmly rule out these two situations, the dominance of socialist public ownership will be assured.

2) The blueprint outlined here differs from contracting in two most fundamental ways. First, the independence of property right is emphasized here. Property right regulates management right. Contracting, in contrast, mixes property right with management right. Under contracting, even property right, which constrains management right, is directly handed over to the factory director (manager), thus removing property right restraints from his behavior. Second, we have stressed that ownership right must be well-defined and operable. In other words, we must enable it to enter the market in the form of marketable securities so that the elements of production contained in ownership right will circulate freely through the market in accordance with the wishes of the owner. On the other hand, contracting emphasizes the weakening of the role of ownership right even as it stresses the expansion of an enterprise's decision-making authority in operations. In effect, the more decision-making authority an enterprise obtains, the more ownership right becomes a "puppet." The weakening of ownership right, coupled with its equation with property right and its broad transfer to the factory director (manager) cannot but lead to a dilemma: if the restraints of ownership right on enterprise behavior are stressed, we would regress to the traditional system under which

the state centralized things to death. If enterprise autonomy is stressed, we will lack effective constraints on enterprise operational behavior.

4. Transition: Contracting, Level-by-Level Contracting, and the Quasi Board of Directors

The contracting system represents a feasible transitional step toward achieving the above goal, but we must not idealize it and regard it as the end itself. Instead we should only consider it a breakthrough in reform. Accordingly, large- and medium-sized enterprises should observe the following principles as they go in for contracting. 1) The contractor must assume risk-taking responsibility as well as property right. 2) It must be made clear who embodies property right. In other words, there must be a clear answer to this question: Who assumes property right? In principle, only the property exchanger can be the embodiment of property right. The property exchanger is not the same as owner. He may and may not be the owner of the property he controls in market exchange. In the latter case, what the exchanger controls is in effect not his own property. This separation between property right and the embodiment of ownership right is exactly a distinctive feature of the modern commodity economy. Thus clarifying who holds property right differs in principle from clarifying who holds ownership right. If we further separate and clarify property right after ownership right is clarified, then ownership right will not be undermined no matter who assumes property right (be it the state, collective, individual, or a foreign businessman). What happens is that the property right contractor obtains certain market exchange control over property that does not belong to it under regulations set by ownership right, (the tangible expression of such regulations being the contract). For large- and medium-sized enterprises, therefore, the original ownership right will not change no matter who contracts for the property right. It is only a question of making property right independent, thereby making ownership right functional.

In China today, only the state is equipped to assume property risks and a share-holding system does not exist. Thus on the enterprise level, we still lack a social force capable of wielding enterprise property right independently without being subordinate to the state. As a transitional reform measure, therefore, level-by-level contracting presents itself as a possible option.

So-called level-by-level contracting means that, first of all, property right contracting must proceed separately from management right contracting. Second, property right contracting itself should proceed on a number of levels. In effect, we use level-by-level contracting to pinpoint the property right contractor and contract issuing party.

The first step presupposes economic federalism. A local authority contracts from the central government control over the properties of an existing state-owned large- or medium-sized enterprise. Under normal circumstances,

the economic responsibility of the local authority for property right contracting will be replaced by an obligation to turn over profit and taxes to the Ministry of Finance as required by law. "Profit" here means the realization of state ownership in distribution. In this sense, the local government has actually become a legal person, not strictly so, but passably as a transitional measure. Contracting with the central government for enterprise property right as a legal person, the local authority is backed by all the local financial resources at its disposal. Contracting replaces the simple vertical subordinate relationship between the central government and local authorities in economic affairs with an economic contractual relationship. The property right, risks, and responsibilities of the central government and local authority vis-a-vis one another are well defined.

In the second step, after the local authority has contracted for property right, it still should not in principle directly restrain enterprise behavior by virtue of its property right. Otherwise, what we have done is nothing more than replacing direct intervention by the central government with direct intervention by a local authority. Thus there is still a need to subcontract the property right contracted by the local government to a nongovernment economic entity to ensure that restraints of property right on management right are only economic restraints, not local administrative ones. The way things stand now, a more feasible approach would be to introduce a financial intermediary into the process on the local government level to subcontract enterprise property right from the local government, using its own property to assume risks. That way the local government passes onto the financial intermediary the risk liability that it has contracted from the central government. Needless to say, different financial intermediaries may subcontract with different enterprises. Also, the same enterprise may contract with several financial intermediaries. Moreover, foreign financial institutions can also operate as a subcontractor. Whoever the subcontractor is, the nature of ownership right will not change.

A financial institution may obtain property right from the local government on two conditions, that it assume economic responsibility for property losses and that it turn over profit and pay taxes to the local government. "Profit" in this context means the price paid to the local government for subcontracting property right.

In the third step, the financial intermediary turns over management right to the enterprise director (manager). At this point the financial institution, having assumed both the risk and enterprise property right, has effectively become a "quasi board of directors." That way restraints by the financial institution on enterprise behavior are no longer restraints imposed by the external financial market, but have been internalized by the enterprise as the embodiment of enterprise property right to regulate enterprise behavior. At this point, the enterprise is no longer one where property right and management right are centralized in the same hands.

Instead, the factory director (manager) wields management right and is held accountable to the "quasi board of directors," that is, the financial intermediary, which exercises enterprise property right. Enterprise profit distribution and the disposal of enterprise properties are to be decided by the "quasi board of directors." This practice institutionally prevents the occurrence of a situation where the factory director (manager) takes risks using property that does not belong to him and is or cannot be held responsible for the consequences.

The local authority must be the principal contractor for the time being because financial institutions remain undeveloped and there are no social forces capable of taking risk. In particular, financial institutions themselves have yet to be commercialized. As a result, local governments must take the lead in contracting for property right and risk, on the one hand, and financial reform must be tackled without delay, on the other. As a matter of fact, once financial reform succeeds in establishing a share-holding system among banks and in commercializing them, the local governments' historic mission of being the principal contractor will be done. This also happens to be our goal: if and when financial institutions become joint stock companies, the appearance of large corporations combining banking and industry is inevitable. By that time we will have achieved our goal of transforming traditional property relations by way of the share-holding system and the original "quasi board of directors" will naturally become a genuine "board of directors" directly constraining the factory director (manager) in exercising management right.

The problem lies in the reform of financial institutions themselves. What enables financial institutions to contract for property right from a local government is their ability to take risks. Then who takes the risks for financial institutions? To whom do assets which enable financial institutions to take chances belong? If they remain state assets, then financial institutions are effectively gambling with state assets, without the economic resources to be responsible for the outcome. To prevent such a scenario requires, first of all, a clear demarcation between the functions of the central bank and those of commercial banks, making the latter the risk taker. Second, the properties of commercial banks should not be completely owned by the state. Instead, their ownership right should be socialized, in other words, countless individuals should be allowed to own a piece of the bank as shareholders. Nevertheless, property right should still be centralized in the hands of the bank. The ownership right of the shareholders is realized in two ways. First, they share its profit. Second, they may cast a vote of no-confidence through the market anytime. Only then can the bank have independent properties to enable it to take risk as an enterprise property right contractor and only then will it truly prudently exercise its property right to restrain enterprise management right effectively. By that time the ownership right of a commercial bank will have changed from state ownership to direct social ownership (the owner may be the state, enterprise,

individuals, or a foreign businessman), but the change in ownership right is precisely a guarantee that the ownership right of other state properties will not change during the contract period. This is because whatever type the bank may be, and it may even be a foreign-funded or private bank, after it establishes a property relationship with a local (or central) government, it is merely a property right contractor. In effect, what it has done is nothing more than using its own properties to finance its own risk-taking involving assets contracted from the state. When a full-fledged share-holding system is in place, similar changes would occur in the ownership right of other properties, but these changes would not necessarily affect the basic nature of ownership right. As far as properties owned by the whole people are concerned, therefore, direct state ownership right, characteristic of the old system, will have been replaced by state control of ownership right through the stock market. Under this circumstance, the question of how to ensure a dominant role for public ownership becomes one of how to secure a controlling share of the stock.

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Methods To Improve Jiangsu Enterprise Contract Responsibility

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[Article by Zhang Xingduan 1728 5887 4551: "Problems Related to the Effort To Advance Implementation of Contract Responsibility and Solutions"]

[Text] So far more than 93 percent of all state industrial enterprises included in the Jiangsu budget have implemented contract responsibility systems. These systems have improved the behavioral mechanisms of these enterprises and enabled us to check the trend since 1984 in which the amount of profits these firms remit to treasuries have declined year after year. During the first quarter of this year, these firms' profits rose by 15.8 percent over the same period in 1987, a rate that was higher than the rate by which the firms' industrial output value rose, 14.8 percent.

Jiangsu has been carrying contract responsibility for only a short time and, while achieving preliminary success, has encountered such new problems as how to incorporate competition into and how to promote technological progress under the system, and the system clashes in certain ways with the strategy of developing externally oriented economies in coastal areas. Thus provincial and city economic departments are seeking through survey research ways to resolve these problems and this year are focusing contract responsibility work on deepening and improving the work and on combining it with other reforms.

Fully Incorporating Competition Into Contract Responsibility

For a variety of reasons, only about 15 percent of the 1,800-some state industrial enterprises that are included in the budget in Jiangsu and that have implemented contract responsibility have recruited managers through truly open, competitive bidding. And most of the enterprises that have done so are small; few are large or medium-sized; most have unstable production and lose money or earn few profits; and few boast normal production operations, good sales and good returns. Thus the provincial government has urged that this year's contract responsibility work focus on actively introducing competition into the system. Generally speaking, this work is being carried out on four levels. First, all enterprises instituting contract responsibility this year must recruit their chiefs openly through base-figure bidding. Second, 15 percent of the enterprises that have already instituted contract responsibility have short-term contracts, so when these contracts expire and the firms go to sign new ones, the firms will be required to recruit their managers through open bidding. Third, enterprises selecting incompetent managers and fulfilling contracts so poorly that new contractors have to be found or the contracts have to be terminated will be required to recruit competent managers through open bidding and to improve their bid proposals when they undertake new contracts. Fourth, enterprises that have signed contracts for 4 or more years must link contract responsibility with complementary internal reform and recruit branch plant chiefs, middle-ranking cadres at section or office levels, and shift and team supervisors through open bidding so that each cadre and worker obtains his position competitively.

Properly Handling the Relationship Between Contract Responsibility and the Strategy of Developing an Externally Oriented Economy.

To make new advances in its effort to develop externally oriented economy, Jiangsu must start by vigorously expanding production for export. Because the foreign trade system breaks down export quotas by locality, cities have divided up and imposed quotas on producer enterprises, greatly increasing the export production quotas of many firms undertaking contract responsibility. And enterprise profits are affected by the differentials in overseas and domestic sales prices. Nantong City alone loses 50 million yuan in filling its export quotas, and since there are limits on the amount of subsidies cities provide enterprises to cover losses stemming from export production, enterprises must bear most of the losses, which makes it very difficult for firms to fulfill the base figures of their original contracts. The province and cities have come up with a number of ways to integrate contract responsibility with the program for developing externally oriented economy, which approaches generally work as follows. Separate contracts are drawn up and

accounts kept for enterprise export and domestic operations; export base figures are accorded special consideration; wages and benefits for export production will be funded out of profit tax rebates and will basically be kept at the same levels as those for production for the domestic market, so as to encourage enterprises to produce for export (Yancheng and a number of other cities have added "supplementary agreements" to existing contracts setting forth the base figures for export production and for foreign-exchange remittances and the rates by which these base figures are to increase during the contract period); where overseas sales prices are lower than domestic ones, the difference will be treated by city governments as enterprise profits; be included, along with base figures, as a basis for the evaluation of enterprise-chief performance; and be incorporated in the pool from which various enterprise funds are extracted.

Stressing Technological Improvement Targets in Enterprise Responsibility Contracts

In carrying out contract responsibility, Jiangsu has emphasized enterprise technological improvement, and more than half of all large and medium firms that have signed contracts have instituted "two guarantees and one linkage" systems (namely, ensuring that profit-remittance base figures are met, ensuring that technological transformation targets are fulfilled, and linking wages and returns), which approaches have proved a big stimulus to enterprise technological improvement. Nevertheless, technological transformation has encountered new contradictions in some enterprises. Some projects require considerable investment and cannot show much progress in 4-year contract periods, so enterprise chiefs are not enthusiastic about them, even though the projects are often key to the long-term development of and improvement in production by enterprises. And whenever firms encounter new opportunities in overseas markets, they need to undertake new technological-improvement projects which can interfere with fulfillment of contract base figures. And there are other such problems. Therefore, provincial economic departments and local governments have decided the following: (1) to draw up, in accordance with state industrial policy and the needs involved in developing externally oriented economy, departmental, sectoral and regional technological transformation plans that are basically coterminous with enterprise contract periods, and to link these plans with contracts; (2) to have provincial industrial departments and bureaus track performance of the 153 firms that are listed as key technological transformation enterprises in the Seventh 5-Year Plan and to have cities select a number of other firms as key technological transformation enterprises in their Seventh 5-Year Plan, keep fully abreast of these enterprises' performance in this work and help the firms overcome difficulties whenever they crop up; (3) so long as continued increases in the value of fixed capital is ensured, to readjust contracts so as to allow ad hoc technological transformation projects to be added as required to respond to changes in international and domestic markets; (4) to make reasonable provisions in contracts to deal with large technological transformation projects spanning two or

more contract periods; and (5) to have the province and cities provide support in terms of budgetary allocation, tax policy, credit, supply of producer goods and materials and other such areas to enterprises that bear heavy technological transformation tasks, that earn large amounts of foreign exchange, that produce good social benefits but that have difficulty repaying loans.

Focusing on Carrying Out Reforms Within Enterprises So As To Complement Contract Responsibility

Fifty percent of all enterprises that have undertaken contract responsibility in the province carry out accounting at different levels and have created their own internal banks, and 80 percent have instituted floating wage systems. As the next step, the province and cities are preparing measures designed to fully integrate wages and enterprise economic results and remuneration and productivity, such as piece work wages, sales commissions as components of salaries, and the like, so as to better mobilize employee initiative. And efforts are being made, as firms begin to carry out accounting at different levels, to extend the practice of establishing "within-factory banks" or promissory note systems so as to perfect each link in enterprise accounting systems.

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[Article by Yang Wanli 2799 8001 6849: "On Speeding Up the Development of the Petroleum Industry"—edited by Liu Qichang 0491 0366 2490]

[Text] The development of China's petroleum industry has entered a vital historical period. A careful analysis of the situation and major problems confronting the petroleum industry and efforts to study feasible countermeasures, grasp the opportune moment, and speed up the pace of reform will be of immense significance to our endeavor to sustain the steady growth of our petroleum production and meet the requirements of the targets and strategies of national economic development.

I. The Petroleum Industry Is In a Stage of Development.

China's petroleum industry has made tremendous achievements in the 38 years since the founding of the People's Republic. Crude oil production has increased by 350,000 tons annually from 120,000 tons to 134 million tons. For 26 years the rate of growth has stayed above 20 percent. The total revenue generated amounts to about 200 billion yuan, four times the amount invested by the state in the industry. The petroleum industry has become a major pillar of the national

economy. If we take a look at the history of the world's petroleum industry, we will find that both the United States and the Soviet Union started developing this industry nearly a hundred years ago, while China has only been developing petroleum production on a large-scale for less than 30 years. In 1957, petroleum and natural gas only amounted to 2.2 percent of China's total primary energy production. The figure rose to 26.8 percent in 1980. Such a fast rate of development is quite rare in the history of the world's petroleum industry.

In recent years, there has been a steady trend of growth in the development of the petroleum industry. A look at primary energy growth during the "Sixth 5-Year Plan" period shows that petroleum growth was beginning to lag behind that of coal and hydropower, being registered at 17.9 percent. How should we view this phenomenon? In my opinion, the trend of more stable growth in the petroleum industry is a normal but temporary phenomenon. There are many reasons for this. The general trend of the development of the petroleum industry is a good, or relatively good one. In fact, China's petroleum industry now finds itself in a stage of development that is characterized by moving up from the bottom to the peak. Since 1981, petroleum output has been growing by 4 million tons each year. The present problem is that we must quicken the pace of our reform and opening up, mobilize all our strength, both internal and external, and push the development of the petroleum industry on to a new stage.

Whether there will be a new leap in China's petroleum industry depends on a combination of objective needs, material basis, and subjective factors.

To begin with, let us examine the urgency for the development of the petroleum industry from the needs of the national economy. Needs are the prerequisite and external driving force for the development of the petroleum industry. The 1990's will be an important period of all-round economic prosperity. It will be a crucial period for the realization of the target for the second phase of development. All-round economic prosperity will place even more pressing demands on the development of energy, which is a basic industry. As high-quality energy, the rate of growth of petroleum and natural gas production directly affects the development of the entire national economy. The development of agriculture, communications and transportation, and the chemical raw materials industry are particularly dependent on the petroleum industry for the provision of the necessary material conditions. Thus, we must attach importance to the petroleum industry in our development strategy.

Next, let us examine the possibility of the development of the petroleum industry from the perspective of China's oil and gas resources. China's long-range petroleum reserves are estimated at 78.7 billion tons, 17.8 percent of which are known and controllable reserves, and most of these are found in the Northwest, North China, and

the Central Plain. Rich reserves and extensive oil and gas prospecting areas provide great prospects for the development of the petroleum industry.

Further, let us examine the practicality of speeding up the development of the petroleum industry from the perspective of the characteristics and history of this industry. Besides great risks, huge investments, and long investment cycles, the petroleum industry also has the characteristics of developing by stages and by leaps and bounds. For example, the discovery of the Daqing oilfields in the early 1960's, the Shengli, Dagang and Liaohe oilfields in the late 1960's, and the North China and Central Plain oilfields in the late 1970's were more or less 10 years apart. There was rapid development after each intermission. This wave-like process of development is precisely the combined reflection of the above-mentioned characteristics. The exploitation of these oilfields provided ample practical possibilities for further development. Thus, only when we view the characteristics of the development of the petroleum industry by comparing its history and its realities, can we correctly appraise the changes that have emerged in the course of the development of this industry.

Lastly, viewed from the general situation, China's economic policies are advantageous to the development of the petroleum industry. The policies adopted by China in recent years to reform and invigorate the economy and open the country to the outside world have injected fresh vitality to and created excellent opportunities for the development of the petroleum industry. For example, the state's policy offering the petroleum industry a contracted output quota of 100 million tons is in line with the nature of the oil industry as a whole and has motivated the enthusiasm of the staff and workers of the industry. The open policy for drawing in foreign funds and developing off-shore oilfields through joint ventures, the policy of increasing the price of crude oil by a slight margin, and the method of the compensated use of oil and gas reserves proposed recently have been most helpful in alleviating the problem of the shortage of funds that is confronting the petroleum industry. Of course, with the development of the situation, necessary readjustments have to be made in existing policies, and new and more perfect policies should be formulated.

In short, in the 38 years since the establishment of the People's Republic, China's petroleum industry has risen abruptly from a state of poverty and nothingness. With the progress of the socialist modernizations, the petroleum industry will gradually proceed to its climax.

II. The Current Major Problems Confronting the Petroleum Industry

The current major problems confronting the petroleum industry are the increasing demands from socialist modernizations on the petroleum industry and the fact that the rate of development of the industry cannot cope with the growing demand. At present, China's per capita

output of petroleum and gas is 140 kg oil equivalent, which is 16 percent of the world's per capita level. China's value of gross national product has to be quadrupled over the period from 1980 to the end of the century, but the annual output of petroleum can only be doubled over the same period. Therefore, the contradiction between demand and supply will remain acute.

Judging from the current situation, three major factors are holding back the development of the petroleum industry:

1) A serious shortage of funds, which is mainly seen in two aspects:

First, there is a big gap between the input of funds and the funds actually required. Petroleum prospecting involves great risks and a good deal of one-time investments. During the "Sixth 5-Year Plan" period, an average of 530 million yuan in investment was required to explore 100 million tons of oil. Sometimes as much as 900 million yuan was required. (It is estimated that the magnitude of growth in investment during the "Seventh 5-Year Plan" period will be even greater). If we want to achieve an annual output of 200 million tons by the end of this century, we must be able to locate new reserves that have a capacity of between 10 and 18 billion tons. This will mean an investment of some 100 billion yuan. Since the output capability of oilfields is characterized by a natural diminishing tendency, the means of expanded reproduction should be used in oil production to maintain simple reproduction. For instance, over the last 4 years, an average growth of some 15 million tons was maintained in oil production capacity. However, since two-thirds of the production capacity was offset by the diminishing output of old oilfields, the actual average annual output growth was only 4.8 million tons. Thus, in order to realize the target of achieving an annual output of 200 million tons of oil by the end of this century, investments amounting to between 300 to 400 billion yuan will have to be put in. Of these, 80 percent will be used in oil production. Investments are expected to be even more substantial in the large-scale development of oilfields in the Northwest and off the China coast because of natural and technological requirements. At present, most of the funds used in developing the petroleum industry each year are used in maintaining the existing crude oil production, and only 20 percent of the funds are used in expanding reproduction. The shortage of funds for expanded reproduction has affected the stamina of the development of the petroleum industry.

Second, the price of oil and gas is not rational. At present, the cost of crude oil covers only the cost incurred in extracting oil and does not cover the cost incurred in the prospecting and development of oilfields. Since the price of crude oil is worked out on this basis, a big gap between the value and the price of oil is inevitable, and the money invested in the prospecting and development of oilfields cannot be redeemed. When the international price of crude oil falls, the differential

income from the over fulfillment of the production quota by petroleum departments under the present contracted output quota policy decreases substantially. Thus, the latent contradiction has become apparent and has intensified the pressure on the reinvestment of funds. The disparity between the value and the cost of crude oil is shown specifically in the following cases: A comparison between crude oil and end product prices shows that on international markets the price ratio between crude oil and its end products is 1 to 1.35, while on domestic markets the price ratio is 1 to 6. A comparison between international and domestic prices shows that even after the plunge in the price of crude oil in international markets, the price of oil is still registered at about \$15 per barrel, or about 450 yuan RMB per ton, as against the 110 yuan per ton for home-produced oil, which is only a quarter of the international price. Over the last few years, the prices of the raw materials and equipment required in oil production have been going up, and the cost of oil production is becoming increasingly higher. The volume of oil output in 1981 was 102 million tons, and the amount of capital input was 5.4 billion yuan. In 1987, oil output was registered at 134 million tons, and the amount of capital input increased to some 19 billion yuan. In other words, while output has gone up by 31 percent, capital input has increased by 250 percent. Currently, China's petroleum industry is facing a serious situation in which losses are incurred across the board, and this has to a certain extent held back the development of crude oil production.

2) The level of the scientific and technological capability of the petroleum industry cannot meet the needs of production development. From the perspective of oil prospecting, modern technologies like seismic prospecting, oil well logging and testing, and information processing have not been put into general application. From the perspective of oil exploration, some of the oilfields are still below standard in terms of technology as well as instruments and equipment for exploiting low osmotic oil deposits and are unable to supply the necessary accessories for advanced technologies for the comprehensive reform of the oil-bearing structure. Moreover, there is still a lack of sufficient means to increase the oil extraction ratio and the volume of exploitable oil reserves. All these have constrained the increase in labor productivity. When the United States and the Soviet Union surpassed the 100 million-ton mark in oil output, each staff member and worker in the industry produced 576.2 tons and 1,132.4 tons of oil respectively on the average. When China attained the 100 million-ton level, each staff member and worker in the industry could only produce 105.8 tons of oil on the average. Among the oilfields in China, the highest average was 290.5 tons, while the lowest was only 18.1 tons.

3) The proven reserve is insignificant. The rate of development of the petroleum industry is still constrained by the volume of reserves. Although from a long-term perspective China's oil resources are very rich, only a very small part of these are proven oil reserves.

The ratio of reserves and extraction is 18 to 1, which is only 50 percent of the world standard. This shows that the relation between oil production and oil reserves is very tight. We should place the task of oil prospecting in an extremely important strategic position, so that we can provide a reliable material foundation for maintaining a sustained and steady growth of oil production. However, since the petroleum industry is a capital-intensive and technology-intensive industry, the solution to this problem depends on the availability of funds and the increase in the scientific and technological level. Thus, the problem of the availability of funds and the level of technology are two important factors holding back the development of China's petroleum industry.

III. Promoting the Development of the Petroleum Industry by Means of Reform

The problems that confronted the petroleum industry in the period when it was moving from the bottom to the peak are also important tasks that should be tackled in the development of the productive forces of the petroleum industry. Thus, reform should be grasped in order to promote the development of the petroleum industry and speed up the transformation of the oil industry from a product economy into a commodity economy. At present, we should seize the opportunity and handle well the following reform tasks with set priorities in a systematic and planned way.

1. External conditions should be improved, and price relations should be set right. Only when the price structure of oil and gas is rationally determined in accordance with the requirements of the law of value can the oil enterprises enhance their capability to accumulate funds themselves, transform themselves, and develop themselves. This requires that the state regulate the petroleum industry on the macroeconomic level and improve the industrial policy in such a way as to give more encouragement to the development of the petroleum industry. The crux of the problem lies in whether the price of crude oil and gas works on the single-track system or the double-track system. If the single-track system is adopted, the fees incurred in the prospecting, exploitation, and extraction of the resources should be included in the cost of the products. This will certainly increase the price of crude oil and natural gas substantially. Although this will mean greater fluctuations and risks, the price problem will be thoroughly solved. If a dual-track system is adopted, the contracted base output quota should be reasonably set, so that the amount of differential revenue derived from the over-fulfillment of production quota can offset the influences of any drop in international oil price or increase in the domestic price index. In this way, the essential funds needed by petroleum departments in exploring and developing petroleum resources and in achieving expanded reproduction can be guaranteed. In the absence of major moves in the price reform, the latter method is a feasible measure.

2. The investment structure of the petroleum industry should be reformed, and the practice of solely relying on state investment should be changed into a practice of diversified investments. What this means essentially is that diversified investment methods such as state investment, investment by local bodies, investment by enterprises with their own funds, the use of foreign capital, and so on, are adopted. At the same time, shares and bonds may be issued for subscription by the general public for the purpose of raising funds. Then, on the basis of the principle that the investor reaps the benefits, funds can be drawn in from diverse areas. In this way: 1) We will be able to alleviate the problem of state investment capability being insufficient. 2) At the same time as we draw in foreign investment, we will be able to draw in advanced technology to solve the problems of prospecting and exploitation in areas where conditions are complicated. 3) Under the current financial system of divided responsibility, the participation of local governments in investment can alleviate the problem whereby the local governments where oilfields are located demand a share of the profits. This can help reduce the burden of the oilfields, lower the cost of production, and maintain normal production at the oilfields.

3. The scientific and technological system of the petroleum industry should be reformed, and comprehensive coordinated technologies should be developed and perfected. Advanced prospecting technology and technology for renovating old oilfields should be vigorously developed, and technology for renovating low osmotic oil deposits and for triple extraction should also be vigorously developed, so that the targets of finding new reserves and increasing the recoverable reserves and the final recovery ratio can be realized. In order to organize well key scientific and research tasks and the tasks of importing, digesting, and assimilating advanced technologies, the following measures should be adopted: First, scientific and technological investment should be appropriately increased, the system of project management and diversified investment methods should be adopted, and channels for drawing in funds should also be increased. Second, technology markets should be developed to turn technological achievements into commodities, so that the enthusiasm of scientific and technological personnel can be mobilized. Third, lateral technological cooperation should be developed to absorb the scientific and technological strength of the scientific and research units, colleges and universities, which are outside the oil profession, to fully utilize the advanced technologies and new achievements of other industries and to update petroleum technology. Fourth, with respect to the scientific and technological strength of the oil industry, efforts should be made to handle well the division of energy level and the joint tackling of important tasks so as to improve effectiveness and efficiency in overcoming scientific and technological problems.

4. The industrial structure and product mix should be readjusted, and the internal potential of oilfield enterprises should be fully exploited. The situation where

oilfield enterprises only produce a single product and have low overall economic returns should be changed; a new structure centering on oil production and encompassing diversified management, comprehensive utilization, and the all-round development of a commodity economy should be established; and substitute industries should be developed. The oilfield industry in general has a large scale of operation and has advantages and potential in respect of manpower, equipment, goods and materials, technology, personnel, resources of oil and natural gas, land resources, and mineral resources, which are symbiotic with or which coexist with oil and gas resources (such as sulphur, salt, soda, terrestrial heat, and so on). Only when appropriate policies are adopted to satisfy the enthusiasm of the petroleum industry and its staff and workers can new industries be developed and an economy of scale with quality brand-name products forming the "dragon heads," factories forming the backbone, and a well-coordinated network of large, medium and small-sized enterprises be gradually formed. For instance, we could make use of the advantages enjoyed by these enterprises in terms of oil and gas resources to reduce waste; economize on crude oil consumption by the petroleum industry itself; recover associated gas; carry out intensified processing of the byproducts of oil and gas; and develop small-chemical fertilizer plants, agricultural chemical, and plastic industries. Their advantages in terms of machinery equipment could be made use of to increase the utilization rate of equipment and develop equipment manufacturing, repairing, and processing industries that are geared to the needs of the whole society. Their advantages in terms of land resources could be made use of to develop crop cultivation, fish breeding and poultry raising, and food processing. And their advantages as labor-, technology- and capital-intensive entities could be made use of to develop lateral economic ties within and outside the oilfields, promote the optimal combination of production factors, and vigorously develop diversified industries and diversified products. Through diversified management and the development of substitute industries, an oilfield could become an enterprise group that is mainly engaged in oil and gas production and that also produces a range of products and achieve better overall economic returns. Thus, it could create more wealth for society and make a greater contribution to society, accumulate funds for oil prospecting and exploitation, improve the standard of living of the staff and workers, and solve the problems of providing employment for the children of staff and workers and finding replacements and outlets for fieldwork contingents.

5. The management structure of oilfield enterprises should be reformed and diversified forms of the contracted management responsibility system adopted. The scope of the roles of planning and the market mechanism covers all of society. With the deepening of the reform and the policy of opening up to the outside world, complementary reforms should be carried out throughout the petroleum industry. First, the "Enterprise Law" should be earnestly enforced. In accordance with the

principles of the separation of government and enterprise functions, the separation of ownership and the power of operation, and management by different levels, enterprises should be given the responsibilities, power, and interests that are due to them, and efforts must be made to properly handle the relations between the interests of the state, the trade, the enterprise, and the staff and workers. In view of the characteristics of the petroleum industry, special efforts must be made to handle well the differences in benefits brought about by the differences in terms of resources and create the necessary environment for fair competition so that high-output oilfields, steady-output oilfields, diminishing-output oilfields, and oilfields with increasing reserves will all receive encouragement. Second, the internal management system of oilfields should be reformed. In accordance with the different professional natures and different scales of oilfields at the secondary level, diversified forms of the contracted responsibility system such as the system of project management, the responsibility system of contracted output targets, the contracted assets management responsibility system, the contract responsibility system of leasing, and others should be adopted.

In addition, the mechanism of competition should be introduced and the law of commodity production should be used to organize the internal production and management activities of oilfields. Efforts must be made to eradicate the old structure in which an entire oilfield "eats from the same big pot" of crude oil production, and to establish a new system under which secondary companies and factories of oilfields can become relatively independent commodity producers and managers. Third, while the contracted responsibility system is being implemented, reforms in respect of planning, finance, labor resources, goods and materials, science and technology, education and so on should be carried out in a coordinated way so that oilfield enterprises can establish a management mechanism that matches their own characteristics, meets the requirements of the development of a commodity economy, and enables them to develop and restrain themselves.

6. The petroleum industry should take part in the great international economic cycle, and the vitality of inland oilfields should be enhanced. At present, China's petroleum industry has entered the international arena in three respects: First, large quantities of oil products have entered the international market. Second, the prospecting of offshore oil is now open to the outside world. While persisting in doing a good job in Chinese-funded oil prospecting, Chinese-foreign joint ventures are being established. Third, foreign funds have been drawn in by some inland oilfields. These measures have already produced obvious results. In my opinion, more open and flexible measures should be adopted to enlarge the scope opened to outside world. In the offshore continental oil zones, fixed areas may be marked out for prospecting by foreign consortia. In the oilfields, a certain number of diversified management projects can be designated for Chinese-foreign joint development of new industries

that have "the two ends outside." Apart from these, oilfields can be encouraged to form lateral economic ties with neighboring open areas and to make full use of the favorable policies offered by open areas to develop the tertiary industry.

ECONOMIC ZONES

Shenzhen Officials on City Becoming Second 'Hong Kong'

Vice Mayor on Need To Emulate
40060428a Shenzhen SHENZHEN TEQU BAO
in Chinese 14 Jun 88 p 1

[By reporter Lin Yudong 2651 5940 2676]

[Text] Shenzhen, 14 Jun (Xinhua)—Shenzhen's Vice Mayor Li Guangzhen said today that, as the arena for reform experiments, Shenzhen must assimilate different experiences, especially some of Hong Kong's experiences.

He said Shenzhen must strive to lead in setting up a new order of socialist commodity economy and becoming a special economic zone which follows international practices under socialist conditions.

Vice Mayor Li Guangzhen is the chairman of the organizing committee of the city's first Litchi Festival. He made the above statement today at a press conference for local and foreign reporters in the International Trade Center to mark the forthcoming festival.

Li Guangzhen said, after a long period of development, in our opinion, Hong Kong's commodity economy, economic system, administrative laws and regulations, including many statutory laws, have become very successful. Hong Kong and the Shenzhen SEZ operate under different social systems, but we can learn a lot from Hong Kong's experiences.

In talking about Shenzhen's present economic situation, Li said Shenzhen's conditions have improved during the first half of this year. From January to May, the GVIO has increased 44.4 percent over the same period last year, and investments in infrastructure have increased 65.1 percent while gross retail sale of merchandise in society has increased 46.5 percent. Foreign trade and exports have nearly doubled. Looking ahead to the next 7 months, the economic situation in the Shenzhen SEZ is expected to be even better. The restructuring of the economic system will be even more thorough. Many of the originally planned reform projects will be put in place in succession. Some of the relatively large infrastructure projects will be completed or will get started one after another.

Theoreticians on Ability To Duplicate
40060428b Shenzhen SHENZHEN TEQU BAO in
Chinese 25 Jun 88 p 1

[By Han Song 7281 2646]

[Text] Early this month, Comrade Deng Xiaoping met with Chinese and foreign delegates attending the international conference on "China and the World in the 1990's." He said, "Today, not only is there one Hong Kong, we need several 'Hong Kongs' in the mainland." When this conversation was reported, many readers became intrigued. How do we get to know Hong Kong, including how do we get reacquainted with contemporary capitalism and learn from Hong Kong's experience in developing a commodity economy, and how do we create mainland "Hong Kongs"? These have become topics of discussion for cadres and workers in the Shenzhen SEZ today.

Yesterday, this newspaper's theoretical department invited a dozen or so theoreticians working in government departments, industrial and commercial enterprises, and research and educational departments to study and discuss Deng Xiaoping's statement. The participants spoke up frankly and without reservation and exchanged broad ideas on the conditions, the methods, and the present measures for "creating" several Hong Kongs.

Participating comrades generally agreed that Comrade Deng Xiaoping's statement should serve as an important guidance for the further development of the Shenzhen SEZ.

Many comrades pointed out that the Shenzhen SEZ has already attained initial success in its effort to emulate Hong Kong. We have the foundation and can spearhead the creation of mainland "Hong Kongs." The participants advocated boldly importing Hong Kong's system of laws for regulating the commodity economy and the Hong Kong government's commodity economy administrative system to expedite further development of Shenzhen's productive capacity.

Some comrades realistically talked about the necessity and the feasibility of Shenzhen's spearheading the creation of mainland "Hong Kongs" and about the present unsolved contradictions, and they also discussed the difficulty of the actual tasks and the ideologies and other issues.

12986

PRC MEDIA ON FOREIGN ECONOMIES

Lessons From Soviet Union, Lenin on Using Foreign Capital
40060384a Beijing GUOJI MAOYI [INTERTRADE]
in Chinese No 5, 27 May 88 pp 33-35

[Article by Li Yunhua 2621 0336 5478: "The Soviet Union's Major Experiences, Lessons, and Revelations in Using Foreign Capital and Technology in the Past 70 Years"—passages in boldface as published]

[Text] The Soviet Union has long emphasized development of foreign economic relations and actively used

foreign capital and technology to develop its economy. When Lenin was formulating a strategy to restore and develop the Soviet Union's national economy shortly after the success of the October Revolution, he regarded absorbing European and U.S. technology and capital as "a task of primary importance." Lenin not only theoretically and politically formulated the strategic economic policy of "using the capitalist West" and adopted a series of related policies and measures, but also used practical methods, such as foreign trade, a lease-concession system, a semi-lease-concession system, attracting foreign loans, signing agreements to accept foreign technical aid, and importing foreign economists, scientists, and technicians, to import and use capital and advanced technology from many capitalist countries, such as the U.S., Germany, England, France, and Italy, and effectively speeded up the restoration and development of the Soviet Union's national economy.

Summarizing the Soviet Union's 70-year history of importing foreign capital and technology, the major experiences and lessons that warrant our systematic study, summing-up, and use for reference are as follows.

1. In order to import foreign capital and technology successfully, a correct strategic policy on opening to the outside world must be formulated and firmly carried out first. In order to use foreign capital and technology, a correct general strategy must be formulated. First, the matter of principle as to whether socialist countries should develop economic relations with capitalist countries must be resolved, and the relationship between maintaining independence, keeping the initiative in one's own hands, and being self-reliant while using advanced foreign experience and technology must be handled correctly. Lenin personally pointed out and settled these major issues shortly after the October Revolution. He pointed out at that time that the proletarian regime "cannot be preserved by relying solely on dictatorship, violence, and force; it can be preserved only by mastering all-wise, technologically-advanced, and progressive capitalist experiences and using all people who have undergone these experiences."¹ Thus, he formulated the strategic policy of "sparing no effort to take economic advantage of" the West and using foreign capital and technology to vigorously develop industry. Based on this strategic policy, the Soviet Union actively carried out an open foreign policy in the 1920's and early 1930's, absorbed and used much Western capital and technology and thus achieved remarkable results, enabling it to fulfil in a short time the tasks of restoring its national economy and speeding up its industrialization. But later, due to domestic and foreign causes, the Soviet Union did not persist in carrying out an open foreign policy and thus took a detour. The Soviet Union's many years of practice show that whenever it had a fairly open policy and emphasized importing foreign capital and technology, its economy grew faster and, whenever it had a closed policy and neglected to use foreign capital and technology, its economy grew slower.

2. In order to import foreign capital and technology successfully, the traditional, outmoded foreign trade system must be reformed thoroughly and improved constantly. The Soviet Union took the following four major steps aimed at reforming and improving its foreign trade system: 1. It improved its foreign trade planning system; 2. it increased material incentives and urged fulfillment and overfulfillment of production plans for export commodities; 3. it set up an automation management system; 4. it used scientific management methods to organize staff members and workers' labor. Reforming its foreign trade management certainly played a definite role in speeding up the growth of the Soviet Union's foreign trade and raising its management and administrative efficiency. But since these reforms were only partial, their effect was limited. Although the Soviet Union has been constantly revising and improving its foreign trade system for some decades, the monopoly principle of foreign trade countries has never changed and it is now continuing to seek ways to resolve issues, such as centralization of power versus decentralization of power and a rational relationship between industry and trade. Objectively, the Soviet Union's tight macroeconomic control of its foreign trade that has prevented bullish exporting, bullish importing, and "resource outflow" is certainly beneficial, but it is too strict, too controlled, has many disadvantages, and can certainly not be adopted by us.

3. A set of effective methods that are suited to one's national conditions must be adopted.

A. Diversified methods should be used to select the best and import more and a bigger variety. It can be seen from the Soviet Union's practice that, based on its needs in various periods, it was able to generally use diversified channels and methods to import foreign capital and technology, such as a lease-concession system, a semi-lease-concession system, traditional foreign trade, signing agreements to accept foreign technical aid, attracting various kinds of loans (such as export loans from the governments of various countries in the West, commercial bank loans, and international banking organization loans), developing economic cooperation and cooperation between industry and S&T, setting up jointly owned companies, engaging in compensation and licenced trade, and engaging foreign technical specialists.

B. Importing of capital must be closely integrated with importing of advanced technology. The Soviet Union's aim in importing foreign capital was not only to supplement its shortage of funds but, more importantly, was to import various modern equipment and technology from abroad and use it to improve its technical standards and economic results.

C. It is necessary to be good at using competition to choose and buy the best and the cheapest. The Soviet Union is generally rather good at using competition between various capitalist countries to select and import advanced and low-priced technology and equipment. It was only through taking advantage of Western economic

crises, seizing opportunities when various Western countries were competing to sell much surplus technology and equipment abroad, forcing prices down, and choosing and buying at low prices the various advanced technology and equipment that it needed, that the Soviet Union was able to save much foreign exchange.

D. Imported technology must be used in a planned and focused way. The Soviet Union has concentrated its imported technology mainly in strategic areas most needed by its national economy, backward sectors, and weak links in its economy and technology. For instance, in the early phase, it used imported technology and equipment mainly in its undeveloped iron and steel, automobile, and engineering industries. In the 1950's, it used it mainly in the chemical industry; and since the 1970's, it has used it mainly to develop resources in its far eastern and Siberian regions as well as in areas such as electronics and computers. It has achieved good results in all of these areas.

E. Imports should be in line with one's repayment capacity and attention should be paid to "promoting exports with imports" and earning foreign exchange by exporting. After importing large amounts in a certain period, the Soviet Union usually made slight adjustments and concentrated its forces in order to avoid becoming debt-ridden and having burdens too heavy to bear. When importing technology and equipment, most Soviet Union industrial departments paid attention to earning foreign exchange through exports, strove to use imported technology to make their products more competitive on international markets, and made every effort to increase exports.

4. Studies of and predictions about the world economy must be improved. In past decades, the Soviet Union has always paid quite a lot of attention to the world economy, the economy of the West in particular, (including studies, surveys, and predictions of its economic theories, policies, conditions, and crises) and striven to have a timely grasp of the trends and changes in the world economy and Western economic conditions. The Soviet Union's experience has shown that only by making complete economic surveys in advance, understanding international market conditions, and making feasibility studies and predictions can importing based on the economic and technological characteristics of each Western country be accomplished more effectively and more and better results be achieved.

5. One's advantages must be developed in line with the characteristics of one's country. The Soviet Union is the largest country with the most abundant natural resources in the world and has an enormous potential for both importing and exporting. All Western countries have always been greatly interested in the Soviet Union's rich resources, such as oil and natural gas, and its huge markets. It can be said objectively that the Soviet Union has a huge advantage in developing economic relations with the West and importing Western technology. This

advantage has certainly been a big help to it in developing technology trade with the West. In fact, the Soviet Union has used this advantage well over the past 70 years. China has conditions that are similar to the Soviet Union's in this respect, with a vast territory, abundant resources, and a large foreign trade potential. Thus, China can use the Soviet Union's experience in this area for reference.

6. It is necessary to be good at taking advantage of western economic crises. The Soviet Union emphasized quite early taking advantage of Western economic crises. In the 1920's, 1930's, 1950's, 1970's, and even the 1980's, it never missed an opportunity to take advantage of Western economic crises. It seized very favorable opportunities to import large amounts of foreign capital and technology when all Western countries were eager to extricate themselves from difficulties, competition and contradictions were sharp, certain restrictions in areas, such as trade, investment, and technology transfer, had to be relaxed, and price concessions had to be made. In this way, it obtained material benefits to strengthen its economy. The Soviet Union's practice and experience shows that whenever they took advantage of Western economic crises, their economy developed faster and, whenever they did not, it developed slower. This experience and lesson are well worth paying attention to.

7. The relationship between importing technology and protecting the national economy must be handled correctly. Although the Soviet Union has had some problems in this area, it has generally handled them well. The purpose of increasing foreign economic and technical interchanges and importing technology and equipment is to strengthen one's ability to be self-reliant and speed up the growth of one's national economy without weakening or damaging it. In order to rationally protect and foster the growth of domestic industry, commodity imports are limited to essential ones. The Soviet Union's basic method was generally not to import any products that they could produce or satisfy quantitative and qualitative needs for domestically. In particular, importing articles of every day use and durable consumer goods was controlled even more strictly. However, going to the opposite extreme in protecting domestic industry must also be avoided and essential imports of technology and equipment must certainly not be overcontrolled.

8. Certain foreign economists and technicians must be appropriately advertised for. The Soviet Union's effective and successful achievements in this area in the early 1930's are worth using for reference. At that time, it advertised for and imported many technicians and economists from Western countries such as the U.S. and Germany. Since China has a shortage of highly-skilled economists and technicians, drawing on the Soviet Union's experience and appropriately advertising for and importing certain talented personnel and focusing on engaging certain skilled, highly-experienced, and highly-qualified specialists will certainly be essential and

beneficial to us in doing a good job of importing technology, fulfilling the task of technologically transforming China's enterprises, and building our economy faster.

9. Certain joint ventures must be selectively and appropriately set up abroad. This is a very effective way to introduce advanced technology and scientific management experience and acquire various economic and new-tech information. The Soviet Union has paid quite a lot of attention to setting up various types of enterprises abroad. In the prewar period, it paid attention to setting up various joint ventures in Western countries. In the postwar period and since the 1970's, these joint ventures have grown very quickly and the Soviet Union has obtained many advantages from them. It has increased its economic and technical interchanges while acquiring advanced Western management expertise and raised its hard currency income while acquiring an understanding of foreign market conditions. It may be said that it has achieved many results with one action. Although China now has many Sino-foreign joint ventures in China, it has few abroad and, based on need and possibility, must plan to increase them selectively, appropriately, and in a planned way.

Comrade Deng Xiaoping has pointed out that "China now has a shortage of both the experience and knowledge needed for modernization." Since advice from others may help one overcome one's own shortcomings, China must pay close attention to and study the Soviet Union's economic and foreign trade reforms as well as its recent trends and conditions in importing and using foreign capital and technology.

Footnote

1. *The Collected Works of Lenin*, Vol 30 p 395.
12267

Learning From Yugoslavia's Experience in Joining GATT

40060384b Beijing GUOJI MAOYI [INTERTRADE]
in Chinese No 5, 27 May 88 pp 42-44

[Article by Peng Cizhong 1756 2945 1813 and Wu Liping 0702 0500 1627: "Yugoslavia's Basic Experience in Joining the GATT"]

[Text] China formally applied for restoration of its status as a member of the GATT in July 1986. This was the biggest step in moving closer to international society that China has taken since its policy of opening to the outside began. China is a developing socialist country. In principle, the GATT sets trade regulations for countries with market economies and makes no special provisions for socialist countries to join it. Thus, China cannot simply look for ready-made provisions in the GATT to restore our membership. Fortunately, socialist countries, such as Yugoslavia, Hungary, Romania, and Poland, have already joined the GATT. Understanding and analyzing

their actual experiences in joining the GATT will certainly be very useful to China in recovering our membership. Since Yugoslavia joined the GATT by committing itself to tariff concessions, its experience has more practical significance for China. This article will introduce Yugoslavia's basic experience in joining the GATT.

Yugoslavia established relations with and acquired an observer status in the GATT in 1950. It had two aims in joining the GATT: 1. Since postwar international contacts were becoming increasingly closer and a country could not build its economy by closing itself off to international dealings, Yugoslavia closely integrated its domestic economy with the world economy by joining the GATT and achieved better results by taking part in the international division of labor in order to speed up the growth of its economy. 2. Yugoslavia recognized the fact that the market mechanism has a positive effect on economic development and tried to acquire feasible market economy experience through joining the GATT in order to reform its centralized planned economic system in which the state was responsible for everything.

I. Economic Reform Laid the Foundation for Joining the GATT.

Yugoslavia began to reform its economy and foreign trade in 1950. At that time, it used a system of state monopoly for foreign trade, with all foreign trade being controlled completely by the state and all business being conducted according to the government's economic plans. In addition, it had not formulated customs tariffs and did not collect them on imports and exports. Thus, it had no way to reflect the economic leverage effect of tariff regulation on foreign trade. Obviously, these conditions conflicted with the GATT's use of the market mechanism as its basic regulation, and its tariff protection principle of using tariffs mainly to protect domestic industry. Thus, Yugoslavia passed an "Economic Enterprise Management Law" in 1950. This Management Law made it possible for Yugoslavia to change from relying mainly on administrative measures to manage its economy to relying mainly on the market mechanism to regulate its economy. Along with the change in its domestic economic management system, its state monopoly system for foreign trade was discontinued and foreign trade decisionmaking power was devolved to the enterprise level. Yugoslavia formulated its first customs tariff in 1956, which applied only to imports of luggage and mail but not trade merchandise. Thus, this customs tariff was quite simple, having only 103 taxable items and a tax rate from 0 percent to 80 percent. Later, Yugoslavia summed up its experience in formulating and enforcing the first customs tariff and, in 1959, formulated a customs tariff that applied to imported trade merchandise and had 4,537 taxable items and an average tax rate of 20.36 percent. The formulation of this customs tariff marked the end of the state monopoly in foreign trade that excluded the role of tariffs and the birth of a new form of foreign trade that used tariffs to regulate foreign trade and protect domestic production.

This was a major action that Yugoslavia took to join the GATT and it laid the foundation for it to finally join the GATT by committing itself to tariff concessions.

In addition, Yugoslavia also carried out credit, banking, and price modifications. From 1963 to 1965, it took a series of steps to increase the effect of the market mechanism on production, investment, and prices. First, it gradually opened up investment fund markets and reformed its banking system. The particular method that it used was to discontinue centralized state control and distribution of investment funds, change all banks into independent enterprises, and allow production investment fund needs to be taken care of by production plants and banks themselves according to market conditions. Second, in July 1965, it readjusted the exchange rate between the dinar and the U.S. dollar, changing it from 750 dinars per dollar to 1,250 dinars per dollar. By readjusting the exchange rate, it eliminated all export subsidies and all administrative management steps that it had had to take because domestic commodity prices were out of line with foreign commodity prices. Taking these steps gave Yugoslavia's tariffs a bigger effect on domestic prices and production costs and an obviously stronger economic leverage role in regulating foreign trade.

II. The Basic Process for Joining the GATT

Yugoslavia's process for joining the GATT can be divided roughly into four phases: 1950 to 1958 was the observer phase; 1959 to 1961 was the informal member phase; 1962 to 1965 was the provisional member phase; in 1966, Yugoslavia became a full member of the GATT.

In the observer phase, Yugoslavia used its contacts with all members of the GATT to understand and become familiar with the GATT's regulations on one hand, while carrying out domestic economic reforms aimed at joining the GATT on the other. By 1958, its economic reforms had made great progress. At that time, Yugoslavia did not think that it could fully commit itself to becoming a full member of the GATT. Thus, it only expressed cautious aspirations to further improve its relationship with the members of the GATT. The GATT welcomed Yugoslavia's aspirations and made a positive response. In 1959, after examining and approving Yugoslavia's foreign trade system and related legal provisions, all members of the GATT agreed to try out GATT regulations between Yugoslavia and GATT members on the basis of mutual benefit and in the form of trade arrangements. The GATT regarded this as a transition phase before Yugoslavia would become a full member of the GATT according to GATT Article 33. In this phase, GATT regulations were tried out between Yugoslavia and GATT members with whom it had trade arrangements. Moreover, Yugoslavia also continued to strive to bring its foreign trade system more into line with GATT regulations. On 12 November 1962, Yugoslavia made a substantial step toward full membership in

the GATT by becoming a provisional member. "Provisional" and "full" members are basically the same in the areas of enjoying rights and carrying out commitments. There are three differences: 1. Provisional members do not enjoy the full benefits of tariff concessions. For instance, when other members revoke previous tariff concessions, full members have the right to claim compensation while provisional members do not; 2. full members have no time limits, being members of the GATT as long as they do not resign, whereas provisional membership is for 3-year periods and must be reapplied for upon expiration; 3. the rights and commitments of full members apply to all members, whereas those of provisional members are limited to a certain extent. At that time, the major reason why Yugoslavia was not admitted as a full member was that its tariff system was still in need of improvement. In addition, the prices of many of its commodities were still out of line with international market prices. Even so, the GATT agreed to Yugoslavia's status as a provisional member and that it could use tariff concessions as an "entrance fee" to finally settle the issue of its seat in the GATT. On 25 July 1965, Yugoslavia passed a "Tariff Law," which further improved its national tariff legislation and further legalized its tariff system. On 18 October 1965, Yugoslavia submitted an official letter to the GATT secretariat, applying to join the GATT according to the procedures in GATT Article 33. At the same time, it asked to take part in the "Kennedy Round" of tariff negotiations. In addition, it prepared two detailed tariff concession lists for joining the GATT and taking part in the "Kennedy Round" of tariff negotiations. The GATT responded quickly. Its general secretary promptly convened a meeting of a work group and laid out its tasks. The work group met three times, in November and December 1965 and February 1966, and basically accomplished the work that was laid out for it by the general secretary. The members of the work group discussed and agreed to submit three documents to a full meeting of GATT members, a "work group work report," a "draft resolution on Yugoslavia joining the GATT," and a "draft protocol on Yugoslavia joining the GATT." Finally, after more than a decade of work, Yugoslavia became a full member of the GATT on 25 August 1966.

III. Tariff Concession Negotiations To Join the GATT

Yugoslavia took only about 6 months to complete its tariff concession negotiations to join the GATT. The tariff concession negotiations involved 201 commodities, or only 4.4 percent of all of Yugoslavia's customs tariffs. The tax rates of 195 of these commodities were kept at their original level, or the so-called "existing tax rate limit." In addition, Yugoslavia also readjusted tariffs on several commodities.

In the tariff negotiations, Yugoslavia took various countermeasures based on its actual domestic production conditions. First, it made large tariff concessions for raw and processed materials on which it could not regulate the supply or which were in short supply. For instance,

the tariffs on commodities, such as natural cork and industrial diamonds, were lowered from their previous level to a tariff-exempt status. Second, Yugoslavia gave strong protection to products which it planned to develop further. It not only did not lower the tariffs for these products, but raised them appropriately instead. For instance, it insisted on raising the tariffs on forging rolls and gold from 3 percent to 6 percent. Third, in the tariff negotiation process, Yugoslavia used methods that were both firm and flexible for electromechanical instrument products, which were a very sensitive issue for both sides. For instance, the Western GATT members wanted Yugoslavia to lower tariffs on electromechanical equipment and instruments so that they could export more, while Yugoslavia needed to both import advanced Western technology and equipment and give suitable protection to its electromechanical instrument products. They finally compromised by keeping tariffs on 88 electromechanical equipment products at their previous levels, i.e. neither lowering nor raising them.

There were two major reasons why Yugoslavia's tariff concessions involved a very small range of products: 1. Yugoslavia's economic reforms were quite thorough, its post-reform economic system was basically in line with GATT regulations, and all GATT members were generally satisfied with it; 2. since Yugoslavia had no previous tariffs and its purpose in formulating them was to enable it to join the GATT, its tariff rates were not high. For instance, the average tax rate of its customs tariffs on imported trade merchandise was 20.36 percent in 1959. By 1965, when Yugoslavia was carrying out tariff concession negotiations with the GATT members, its average customs tariff tax rate was only 10.5 percent. Moreover, the tax rates of the 195 "existing tax rate limit" commodities on the concession list that was agreed upon at the end of the tariff negotiations were not high either. For instance, the average tariff on leather products was only 1.4 percent, that on chemical industry products was 6.9 percent, and even that on electromechanical products that needed protection was only 23.2 percent.

We can clearly see from Yugoslavia's actual experience in joining the GATT that it carried out a long and unremitting reform of its domestic economic system. The effectiveness of this method is very remarkable. In addition to enabling Yugoslavia to complete its tariff concession negotiations successfully, it also reduced the number of discriminatory commitments that Yugoslavia had to promise to undertake. The facts show that when a socialist country joins the GATT, its domestic economic reforms are closely connected to its tariff concession negotiations and, the more thorough its economic reforms, the more likely that its tariff concession negotiations will be successful. In order to enable China to recover its status as a member of the GATT as soon as possible, we should draw on Yugoslavia's valuable experience, speed up and intensify our reforms, and actively prepare for tariff concession negotiations.

AGRICULTURE

Provincial Problems in Production, Marketing of Agricultural Capital Goods

40060498c Beijing NONGMIN RIBAO in Chinese
18 Jul 88 p 2

[Text] Findings of surveys recently conducted by Jilin, Hunan, and Sichuan indicate that the salient problems plaguing production and marketing of agricultural means of production in these three provinces are the overly large gap between supply and demand and the overly rapid increase in prices. Provincial departments participating in the surveys believe that these problems can be resolved to a certain extent by increasing investment in industry producing and by improving the marketing system for agricultural capital goods.

Statistics obtained from the surveys show that, although Hunan basically managed to supply its own needs for chemical fertilizer, Sichuan and Jilin face 1.4 million- and 900,000-ton shortfalls of this product, respectively; that there are even greater shortages of agricultural plastic sheeting and insecticides in all three provinces; and that the output mix of these latter goods does not meet demand.

In terms of price performance, the gradual readjustments of the past have given way to rapid surges. In Jilin insecticides, chemical fertilizers and agricultural plastic have risen an average of 20-plus percent over last year, and plastic film mulching has climbed the fastest. In Hunan, negotiated retail prices are now double the officially set prices for local sales. In Sichuan, the retail sales prices of major insecticides have doubled since last year, but the prices of chemical fertilizers and agricultural plastic have basically been brought under control since the province effected a "tripartite integration" of pricing, marketing channels, and distribution.

The contradiction between supply and demand and the rise in prices for agricultural means of production have had a big impact on farm production and on the relations between cadres and the masses.

The Jilin Provincial Price Bureau estimates that price rises for chemical fertilizers, insecticides and plastic alone will increase peasant production costs by 150 million yuan in that province this year. The Hunan Provincial Price Bureau estimates that price rises for agricultural means of production have increased peasant production costs by 340 million yuan in that province this year and last, for an average increase in production costs of 6.74 yuan per mu. The overly rapid rise in the prices of agricultural means of production has induced peasants to cut back on production and on intensive farming. This year, in Jilin the spring-sown corn area declined by 5.4 percent from last year and the area on which plastic film mulching is employed dropped by 70 percent. In Hunan, plastic-mulching use in rice seedling

cultivation declined across the province, so that early-rice transplanting was delayed and that 15 percent of early-rice paddy went unused. And there fights among peasants for chemical fertilizer have also occurred from time to time.

Relevant departments say that the shortages of and price rises for agricultural means of production are caused by a variety of factors. First, there is confusion in the way these goods are marketed, and resale price gouging is therefore severe. Many units illegally deal in these goods, small peddlers and individuals are even more involved in this activity, and even official agencies engage in it. Some producer enterprises willfully ignore state ceilings on ex-factory prices and hike prices without authority or impose price increases as a requirement for signing deals to deliver these goods. Second, production costs have increased, and profit margins have declined, which factors are major reasons behind the efforts of producer enterprises to market the goods themselves and to hike prices without approval. For example, although the Sichuan Chemical Fertilizer Co increased its revenues by hiking prices for its product this year, the company had to pay out 5.6 million yuan for increased rates on electricity, 1.57 million yuan for increased rates on water, and 18.88 million yuan for increased packaging prices—a total of 26.05 million yuan. Including the increased costs stemming from other price rises, it is estimated that these increases will reduce the company's profits from 4.657 million yuan last year to 133,000 yuan this year. During the first quarter of this year, price rises for coal, electricity, heavy oil, water, and packaging increased the costs of the Xiangjiang Nitrogenous Fertilizer Co by 3,664,800 yuan over the same period last year, and although the firm hiked its ex-factory prices for urea by 50 yuan a ton, its profits still declined by nearly 3 million yuan from the same period last year. Third, after fiscal responsibility was contracted out to each administrative level, governments having the financial resources to subsidize agricultural means of production prohibited all out-sales so as to prevent other areas from benefiting from local subsidies or maintained low prices for local sales and high prices for out-sales, competing with other regions to hike prices and engaging in "big tourism" for agricultural means of production. Governments lacking such financial wherewithal have turned instead to setting rigid producer prices, to permitting price gouging for products purchased outside the local area, or to just washing their hands of the whole affair. Clearly, this system has exacerbated shortages and loss of control over prices.

Relevant agencies in the three provinces have raised the following proposals to deal with the above problems.

1. Increase investment in industry producing agricultural capital goods. The central authorities must establish a general policy of providing vigorous support to this industry. Investment must be made to build large chemical fertilizer plants and to improve small chemical

fertilizer plants that are technologically backward and that waste large amounts of energy so as to protect supply of energy and raw materials.

2. Reform the marketing system for agricultural capital goods. First, eliminate the "double-track system" and integrate distribution, marketing channels and pricing. Second, make supply and marketing cooperatives and companies dealing in agricultural capital goods independent, and eliminate unnecessary links. Chemical fertilizer produced by large plants and insecticides should be allocated by provincial corporations specializing in agricultural capital goods, and county producer enterprises and local-level cooperatives should handle these goods on separate levels. Chemical fertilizers produced by small firms, on the other hand, should be marketed through the following process, from the plants, to basic-level cooperatives, to peasants. It is also hoped that priority will be accorded to transport of major agricultural means of production, so as to ensure smooth shipment.

12431

National Tobacco Procurement

40060084a Beijing JINGJI RIBAO in Chinese
1 Nov 88 p 1

[Text] As of the middle of October, China had procured 31,188,000 dan of flue-cured tobacco, an increase of 8,330,000 dan over the same period in 1987. However, most of the tobacco remains in tobacco-producing areas because of transportation difficulties. By the end of September, only 1,313,000 dan had been transferred out of these areas, accounting for only 14 percent of the plan. Yunnan Province will need more than 3,390 railway cars in November, December, and January to fulfill its transfer tasks. In October, Yunnan requested 948 railroad cars, but only 411 were approved. Shaanxi, Henan, Guizhou, and Heilongjiang provinces will not be able to ship most of their tobacco out because of a shortage of railroad cars.

Anhui Steps Up Tobacco Production, Strives To Protect Local Supply

40060498b Hefei ANHUI RIBAO in Chinese
27 Jun 88 p 1

[Excerpt] Anhui's cigarette industry, the fifth largest in the nation, produces approximately 200 million cartons of cigarettes a year, requiring about 125,000 tons of cured tobacco. This year, the province will plant a total of 564,000 mu and may harvest 65,000-75,000 tons of tobacco, providing that no major natural disasters, disease, or insect damage occur, and thus will have to bring in from other provinces or import another 50,000 tons. Last year, Anhui signed an agreement with Yunnan to trade 125 million kg of parity-priced rice for 16,000 tons of that province's tobacco, actually obtaining 11,000 tons of superior and medium grade tobacco. On average,

a price premium of about 4,000 yuan per ton of Zhongsan tobacco was paid, whereas it costs more than 24,000 yuan, including various taxes and fees, to import a ton of Brazilian tobacco. A poor province that faces severe shortages of funds and foreign exchange, Anhui has no choice but to root itself in local production, to devise a wide variety of ways by which to expand local tobacco production bases, and to ensure that all tobacco planted this year is fully harvested as top priority. Vice Governor Zhang Runxia [1728 3387 7209] stated that, although two straight years of shortfalls in tobacco output have caused provinces to face shortages of the raw materials needed for cigarette manufacture, Anhui will not scramble to buy up other provinces' tobacco and will not allow other provinces to snap up its. To achieve high yields and procurement, he said, we have got to go all out and ensure that this year's tobacco procurement plan is fulfilled.

12431

Provinces Invest in Shandong's Salt Industry Development

40060498a Beijing JINGJI CANKAO in Chinese
14 Jul 88 p 2

[Text] Shandong, one of China's key salt producing regions, has instituted an "everybody does salt production" program that stipulates that "whoever invests in our salt industry shall obtain salt and other rewards" to attract investment from a wide range of provinces and municipalities in order to accelerate the development of the province's salt industry. Since last year, Liaoning, Shanghai, Tianjin, Zhejiang, Henan and three other provinces have signed contracts or agreements with Shandong to invest a total of 89 million yuan in the latter.

Shandong is a key focus of national salt industry development during the Seventh 5-Year Plan, which calls for new construction, expansion or improvement of salt pans having a total raw-salt output volume of 3.5 million tons, equal to more than one-half of the new production capacity slated to be added during the plan period nationally. The unprecedented rate of development of Shandong's salt industry is taking place during a period of severe capital shortages. Therefore, to fulfill plan development targets on time and to alleviate the shortage of raw salt on markets throughout the nation, the Shandong Provincial Salt Corp since last year has attempted to attract investment in the development of its industry through a variety of channels and permitted "output to be shared, through planned distribution, in proportion to the amount of money invested."

The eight provinces and municipalities that have signed contracts or agreements with Shandong all use large amounts of salt in their industries. In accordance with the agreements, Shandong will provide the provinces and municipalities with specified amounts of raw salt, with next year's total reaching 820,000 tons. For example, Dalian Chemical Co, China's largest producer of

soda ash, has invested a total of 10 million yuan in Shandong's salt industry and, in accordance with its share of investment, will receive from the province more than 100,000 tons in raw salt. And the Shanghai Electrochemical Plant, the Pudong Chemical Co and the Shanghai Chlorine-Soda Corp, which have invested 34 million yuan in Shandong's salt industry, will receive more than 300,000 tons of raw salt from the province, as per agreement. This approach has helped mobilize the initiative of salt users, ameliorate shortages in capital needed for salt industry development, stabilize the relationship between supply and demand in salt and spur the development of the salt industry.

Work on 11 of the 15 salt-industry development projects slated for Shandong in the Seventh 5-Year Plan has already begun in earnest, and if funding is provided in time, 10 of these projects can be completed this year, adding a total of 1.25 million tons in new raw-salt production capacity, and another 1 million tons can be added next year.

12431

Increase in Agricultural Investment in Yunnan Urged

40060501 Kunming JINGJI WENTI TANSUO
[INVESTIGATION OF ECONOMIC PROBLEMS] in
Chinese No 6, 20 Jun 88 pp 34-36

[Article by Shen Chaoda 3088 2600 6671: "Increase Inputs in Agriculture and Promote Agricultural Development"]

[Text] Yunnan is a mountainous agricultural province that is inhabited by a variety of ethnic groups, has poor transportation, and is backward economically, culturally, scientifically and technologically. The extent to which the rate of growth in agriculture will directly affect the rate of growth of Yunnan's national economy and the effort to stimulate and accelerate agricultural development are all dependent on the importance we attach to the status and role of agriculture in our national economy. And only by increasing agricultural inputs, by properly handling various agricultural support funds, and by steadily improving the returns on fund use can we consistently stabilize agriculture, improve agricultural productive conditions, strengthen agricultural reserve forces and make agricultural production develop in a healthy fashion.

I. We Must Come to a New Understanding of the Importance of Developing Yunnan's Agriculture.

Agriculture is the foundation of both the national economy and our financial work, and grain is the foundation of that foundation. Yunnan's agriculture developed greatly since the 3d Plenum of the 11th Central Committee. In 1987, gross agricultural output value reached

11.13 billion yuan, a rise of 1.7-fold over 1978. Output of tea, cured tobacco, sugar, rubber and other cash crops in 1987 reached levels more than double those of 1978. In 1987 rice production was 18.7 billion jin, and the net per capita income of peasants was 364.5 yuan, a rise of 45.8 percent over 1985. Nevertheless, for a variety of historical and social reasons, Yunnan's agricultural foundation remains very fragile, its agricultural productive conditions are poor, two-thirds of its cultivated area of 41-some million mu lack irrigation and drainage equipment and thus are low-yield, its agronomic forces are weak, its cultivation technology is backward and has long followed traditional patterns, its ability to resist natural calamities is weak, its grain yields are low and unstable, it has long failed to be self-sufficient in grain, its agricultural marketing rate is very low, it has had to bring in more than 1 billion jin of grain from other provinces in each of the last 2 years (1.07 billion in 1985 and 1.75 billion in 1986) for which it had to pay out more than 350 million yuan for subsidies at the provincial government level alone, it lacks agricultural-production reserve forces, and it has long been stuck at the stage of a primitive, natural economy. Agricultural output, which accounts for approximately 40 percent, has to support the province's agricultural population, which comprises nearly 90 percent of the provincial total, about 15 percent of all peasants in the province lack sufficient food and clothing, and the province's financial burden is onerous. Yunnan's agriculture is backward relative to the rest of the nation. In 1986, it accounted for 2.8 percent of the national total in crop sown area but for only 2.4 percent of gross agricultural output value nationally, and our per capita agricultural output value stood at 280 yuan, 25th in the nation, 102 yuan less than the national average. Our effective irrigated area was 14.5 million mu in that year, equal to 2.2 percent of the national figure, 17th in the nation, with a per capita average of only 0.48 mu. Agricultural irrigation-drainage power equipment equaled only 0.9 percent of the national total, 23d in the nation. Mechanized farming area stood at only 275,800,000 mu, equal to only 6.6 percent of the national total, and was much lower than the national rate of 38.5 percent. Some 174,420,000 tons of chemical fertilizers were used, 2.4 percent of the national total, with a per mu average that was 15 percent lower than the national figure. And per capita peasant income was 94.62 yuan lower than the national average, 23d in the nation. Yunnan also suffers a greater frequency of natural calamities than most other provinces. Over the past 35 years, the nation on average has suffered 1 year of decline in grain output every 5 years, whereas Yunnan has undergone a decline every 3 years. This state of affairs has been especially pronounced since 1985, during which time it experienced 2 straight years of major reductions and 3 years of fluctuation in grain output.

Furthermore, from the perspective of Yunnan's fiscal receipts, 75 percent come from cured tobacco, sugar, tea, cigarettes and other agricultural cash crops and processing industries that rely primarily on agricultural raw

materials. These facts show that conditions in agricultural production, this fundamental industry, have a crucial impact on Yunnan's national economic development and on its fiscal revenues. In discussing agricultural problems, a central leader recently said that, "If China, a country having a population of 1 billion people, does not first resolve the basic problems of food and clothing, it cannot even begin to address any other issues and will not have a single day of peace, the four modernizations, reform and liberalization will become empty talk.... We must come to a new and better understanding of the importance of agriculture, especially grain production." Yunnan's great decline in grain production over the past 2 years has affected supply for urban nonstaple food production and caused prices of pork, poultry and eggs to climb as a result of tight supply of these products. Comrade Deng Xiaoping recently told a foreign leader that political and economic conditions in China are good now and that any bad news that might occur during the 1990s will be of agricultural problems. This statement is very profound. Thus if we are to realize the important role of agriculture in the four modernizations, we must achieve a new and better understanding of agriculture. All quarters must concern themselves with and support agriculture and help promote its growth.

II. Adopt Effective Measures To Increase Agricultural Inputs.

In emphasizing agriculture and developing agricultural production, we must rely on policy, science and inputs. We must implement the party's policy so as to mobilize the initiative of peasants, especially for producing grain; promote the development of agricultural production, especially increasing grain yields; and increase inputs and strengthen the reserve forces for agricultural development. We must resolutely implement the central authorities' policy of "never letting up on grain production, and aggressively diversifying farming operations." And we must make increasing grain output, gradually reducing grain in-shipments and striving to achieve self-sufficiency in grain Yunnan's basic policy in agricultural production and in its grain work.

Some people used to think that agricultural development depends entirely on policy and science and can do without increases in inputs. This view is wrong. Many policies, in fact, are difficult to implement without needed inputs. Increasing inputs involves increasing all types of inputs—of people, of finances, of material, and of science and technology. Peasants, collectives and the state all should increase their inputs in agriculture. Yunnan's effort to develop agriculture—especially building hydraulic engineering projects, afforestation, planting grass, and carrying out farmland capital construction and other civil engineering projects—requires the peasant labor accumulation and cannot depend solely on state funding. Inputs by peasants also includes investment of funds, and we must adhere to the policy of "relying mainly on our own efforts while seeking assistance from the state." Township enterprises must also

devote full effort toward the development of agricultural production. These firms, which got started relatively late in our province but have developed rapidly in the past 2 years, must properly handle the relationship between the state, the collective and the individual; effectively "use industry to supplement and build agriculture"; and actively support the development of agricultural production.

The state should appropriately increase its budgetary support of agriculture as its financial resources expand. The "Decisions Relating to Increasing Agricultural Investment and Accelerating Agricultural Development" issued by the Yunnan Provincial CPC Committee stipulate that during the Seventh 5-Year Plan budgetary agricultural support funding shall increase at the same rate as total budgetary expenditures; that 20 percent of all provincially budgeted and self-raised funds for investment in capital construction shall be invested in agricultural capital construction and similar investment by prefectures and counties must be even higher than provincial levels; that 10 percent of all potential-tapping, and technological-transformation funds shall be allocated to various agricultural sectors; that prefectures and counties must devote the majority and the province, more than one-third of their three-project scientific and technological funds to agriculture; that all receipts from taxes on slaughtered animals be allocated toward the development of animal husbandry; and that 50 percent or more of all backward-region development support funds be employed in agriculture. As a result of the conscientious efforts of governments and financial agencies at all levels to implement these decisions and their spirit, during 1986 Yunnan's budgeted investment in agriculture greatly increased, reaching 575 million yuan, a rise of 159 million yuan, or 38.2 percent, over 1985 and exceeding the rate of increase in budgeted outlays that year, which was 23.4 percent; and agriculture's share of total budgeted expenditure rose to 12.6 percent from 11.3 percent the previous year. These developments have had a positive effect on the development of agricultural production in Yunnan and on our efforts to eliminate poverty in the poorest districts of our province, to overcome serious natural disasters and to support the development of our rural economy.

In planning its budgeted expenditures last year, Yunnan conscientiously implemented the spirit of the central authorities' policy on the "three guarantees and the one reduction"; adhered—while cutting total outlays by 10 percent and while fulfilling the central authorities' loan targets—to the principle of ensuring the success of reform, the development of agricultural reserve forces and the creation of a benign cycle; correctly handled the relationship between reducing expenditures and ensuring the development of agricultural reserve forces; effected budgetary cutbacks on a case-by-case basis; did its utmost to protect expenditures affecting the overall picture in the province's agricultural production and enhancing the reserve forces for agricultural development; ensured steady increases in agricultural investment; and provided 652 million yuan in budgeted support for agriculture, a rise of

14.2 per cent over the previous year. These advances marked and improvement on the previous year, which itself experienced a great increase in agricultural support funding, and occurred during a period of budgetary retrenchment, which shows that financial agencies at all levels have been resolute in implementing the "Decisions" of Yunnan CPC Committee and government and that the general policy of ensuring the development of agricultural reserve forces is correct.

III. Strengthen Management and Improve the Results of Fund Use.

Over the past 2 years, the rise in Yunnan's financial support of agriculture has occurred largely through boosts in budgetary outlays and in funding provided by banks, credit cooperatives and other agencies. The key to promoting improvement in agricultural productive conditions and in enhancing agricultural reserve forces so as to raise grain output and peasant incomes lies in finding new ways to ensure effective use of these funds. First, we must reform the way in which the funds are used. In the past, no payment was generally required for use of the funds, so fund use did not take into account available supply of producer goods and materials, the real costs technical services, and economic results, such that funds were "allocated, transferred and ignored" and that "people vied with you if you needed money, no one paid any attention to how you used money, no one ever reported the results of money use, and no one ever cared how money was used," so that funds were not effectively used. To change this state of affairs, we should extend the experience of Qiubei County to the entire province and reform the way agricultural-support funds are used, which means that we should link fund use to supply of producer goods and materials and require payment for technical services, setting fee rates per mu of farm land benefiting from such services according to the varying conditions among agrotechnical stations. By so doing, we can ensure that advanced science and technology are disseminated as needed; enhance agrotechnical workers' sense of responsibility and dedication; steadily improve the quality of technical service; and invigorate the dissemination of agricultural technology. Except for experimentation and technical training, which should not require compensation, we should set fees for all other services by project, by task and by fund; set service fees by project target; reward and punish performance; and link funds with supply of goods and materials and with use of technology. Earnings from technical service should be used as agricultural scientific and technological extension funds, which should be recycled. Third, we should employ the practice in which interest is paid in the form of a deduction in the principal extended when government loans are granted, so as to reduce the gap between demand for and supply of funds. Eighty percent or more of all county agrotechnical workers should be required to establish their registered permanent residences in and obtain their salaries from a particular district, so as to make their tasks and responsibilities more explicit and easy to investigate and evaluate.

Second, we must improve management of the budgeted, recyclable agricultural support fund. This fund marks a major shift from the practice of subsidizing agriculture to the use of compensated, recyclable funds to finance agriculture. Yunnan's budgeted, recycled agricultural support fund was established in 1979, and 550 million yuan worth of these moneys were used as of the end of 1986, equivalent to the total amount of money allocated to the support of agriculture in a year. Some counties have used as much as 7-8 million yuan of these funds, and the lowest amount used by individual counties totals 1-2 million yuan. We must strengthen management of the projects these funds support, introducing such things as feasibility studies, market forecasting, targets for economic results, and the like, and ensure that projects lead from one to the other. We must also improve recovery of and the recovery rate for these funds, accelerate fund turnover, operate each system of internal reporting more strictly, and steadily improve management of these funds. These moneys constitute a special fund with which governments of all levels provide financial support for agriculture, and thus the funds must not be diverted for other purposes, such as to balance budgets or to cover shortfalls in capital construction funding. Rather, the funds must be allowed to roll and grow like snowballs. All work regarding their distribution, lending, supervision, recovery, accounting and the like should be handled strictly in accordance with the rules and procedures governing financial management. And the funds should not be distributed through administrative fiat.

Third, each type of agricultural support fund must be managed in a unified way so as to give full play to the funds' overall effectiveness. At present, agencies employ the funds through a great variety of channels, such that the funds are often issued downward through a single bureaucratic system, each agency guards its own passes, and each does its own thing, so that fund use is not systematically controlled or supervised and thus is not fully effective. Governments at all levels should bring financial agencies, banks and supervising departments together; ensure that the channels and purposes of the funds are not altered; provide unified planning for the projects supported by these funds; manage the funds in a unified fashion; and ensure that each agency fulfills its responsibilities so that the funds it controls serve the same development goal, that the funds play their full roles and thus that the overall effectiveness and comprehensive economic results of the funds are fully realized.

We must strengthen management and ensure proper use of special agricultural-support funds such as commodity grain base funds, development funds for backward regions and the newly levied cultivated-land use tax. It is especially important that the latter, a new source for agricultural-support funds, be managed by financial agencies in a unified way so as to ensure that it is truly used for farmland reclamation and for improvement of agricultural productive conditions and is not employed chaotically and wastefully.

12431

Advances In and Analysis of the Breeding of Insect-Resistant Paddy

40110010 Beijing ZHONGGUO NONGYE KEXUE
[SCIENTIA AGRICULTURA SINICA] in Chinese
No 4, 1988 p 8

[English abstract of article by Lu Ziqiang 7120 5261 1730 and Gu Zifen 7357 5261 1164 of the Jiangsu Agricultural Academy]

[Text] Though work on the breeding of insect-resistant paddy did not begin in China until the 1970's, thanks to the cooperative efforts of rice breeders and entomologists, innumerable kinds of germ plasm resistant to insect pests, including brown leaf hoppers (*Nilaparvata jugens*), white back leaf hoppers (*Sogata furcifera*), paddy borers (*Tryporyza incertulas*), rice leaf rollers (*Cnaphalocrosis medinalis*), rice thrips (*Thrips oryzae*), and rice gall flies (*Pachytiplosis oryzae*) have been identified; valuable insect-resistant cultivars have been found; and numerous disease-resistant varieties have been bred. Examples include xian rice varieties Zheli No 1, Xiangzaoxian No 3, Aimeizao, Aihong No 1, 82-127, Zhongxuan 13, Nanjing 3714, and Yangdao No 1, as well as jing rice varieties P 339 and Jiangsu 80047. Demonstrations and application to production have shown these varieties effective in reducing the incidence of brown leaf hoppers and other insect pests, and in reducing both the number of applications required and the dosage of chemical pesticides, thereby protecting beneficial paddyfield organisms for marked ecological benefits. The breeding of insect-resistant paddy rice has become an important measure in the integrated prevention and control of paddy rice insect pests in China.

This article discusses, in terms of present methods for breeding insect-resistant varieties of paddy, the methods for bolstering research on the nature of rice insect pests, the cooperation of multiple disciplines in the genetic analysis of insect pest resistance, study of resistance mechanisms, how environmental factors affect the expression and stability of insect-resistant varieties, and how to gradually improve methods for selecting and evaluating cultivars resistant to insect pests.

Report on Pathologic Changes Resulting From Colibacillosis

40110007 Beijing ZHONGGUO SHOUYI ZAZHI
[CHINESE JOURNAL OF VETERINARY MEDICINE
in Chinese No 5, 22 May 88 pp 14-16]

[Article by Wang Tingfu 3769 1694 1381, Fang Hai 2075 3189, Chen Cuizhen 7115 5050 3791, and Ma Jifei 7456 0679 7378, Hebei Agricultural Technology Teachers Academy: "Observation of the Pathological Morphology of Cases Artificially Infected With Pathogenic E. Coli of Rabbit Origin"]

[Abstract] A desire to explore further pathogenic changes to tissues and organs resulting from infection with E. coli

of rabbit origin led to this experiment in which a strongly toxic strain was inoculated into rabbits. The article explains, with the aid of tables, the incidence of death, diarrhea, septic infection, and abdominal distention from the injection of from 0.5 to 4 ml of the coli intravenously, intramuscularly, subcutaneously, or endogastrically into rabbits ranging from 40 to 60 days old.

A detailed autopsy report on the condition of the viscera from 25 rabbits killed by the experiment and a presentation of conclusions drawn from the experiment, and their significance completes this two and one-half page report.

9432

Application of SPA Solid Phase Immuno-electron Microscope Technique to the Assay of Aphtha Virus

40110008 Lanzhou ZHONGGUO SHOUYI KEJI
[CHINESE JOURNAL OF VETERINARY SCIENCE
AND TECHNOLOGY in Chinese
No 6, 20 Jun 88 pp 30-31]

[Article by Wang Jincheng 3769 6651 2052, Guo Suzhen 6753 4790 3791, Zhang Huian 1728 1920 1344, and Mohetaer 5459 0678 1044 1422]

[Abstract] Application of SPA-solid phase immuno-electron microscope technique (SPA-SPIEM) to the assay of the aphtha virus yielded good results in experiments that used aphtha viruses taken from camels, goats, and sheep. Isolation and identification of epidemic aphtha pathogens using the SPA-SPIEM technique showed far larger numbers of viruses than the direct electron microscope (DEM-PTA) assay technique. The SPA-SPIEM was also superior to the DEM-PTA technique in producing results in just several minutes rather than between 1 and 2 hours. This result was consistent with the experiences of Shukla in the application of SPA-SPIEM technique to the assay of plant viruses.

This one and one-half page article details the antigens and antibodies used, and the specific methods employed in assays using both techniques.

Technique for Introducing Exogenous DNA Into Plants After Self Pollination

40110009 Beijing ZHONGGUO NONGYE KEXUE
[SCIENTIA AGRICULTURE SINICA] in Chinese
No 3, 1988 p 6

[English abstract of article by G. Y. Zhou of the Shanghai Institute of Biochemistry, Academia Sinica, et al]

[Text] A technique for introducing exogenous DNA into plants has been applied to breed cotton and rice in China for several years. Genes responsible for disease resistance and other traits from different sources have been successfully transformed. Stabilized varieties thus obtained have been cultivated in the field for 7 to 10 generations. Some of them have already been extended to 200 hectare lots. By means of this technique the segments of DNA from donor were added to the genome of cultivars. It was found that only 3 to 4 generations were needed to breed a new variety instead of 6 to 8 generations for conventional crossing.

The technique is briefly as follows. After self pollination, the exogenous DNA is allowed to pass along the pathway of the pollen tube in the nucleus to enter the embryonic sac and transform the egg, zygote or early embryonic cells. The cell or cells to be transformed in that time do not have normal cell walls. The transformed seed then the plant could be obtained directly. The transformation rate could be as high as 10^2 . No protoplast preparation, cell culture or plant regeneration is needed. The DNA used is the total DNA segments (10^6 - 10^7 daltons) of the donor which carried the goal gene(s). This technique can be applied in principle to any flower plant. For a definite species, the details of the technique should vary in accordance with the characteristics of the species. Different species of plants have different flower structures and also show differences in time and duration of pollination and fertilization.

Since this biotechnology is simple, breeders take it up easily. It is a promising technique by which any gene source may be used for transformation when the gene structure is compatible with the recipient plant genome and the gene product fits into the metabolism of the plant. Using this technique useful genes can be screened for advancement in varieties.

Wang Feng Addresses Conference on Civil Disputes, Commends Mediation Work
40050005b Beijing FAZHI BAO in Chinese
14 Jul 88 p 1

[Speech by Wang Feng 3769 5364, minister of public security, to national conference on the prevention of the intensification of civil disputes: "People's Mediation Work Plays a Vital Role in Maintaining Social Order"]

[Text] Comrades,

The national experience exchange conference on the prevention of civil disputes, convened by the Ministry of Justice, has opened in Beijing. On behalf of the State Council, I would like to congratulate you warmly. I would also like to congratulate and thank the advanced mediation organizations and personnel who have been commended and given awards at this conference. May I also take this opportunity to pay my deepest respects to the more than 6 million mediation personnel across the nation.

Mediation work is very important. In recent years, mediation organizations have made great headway. At present there are almost a million people's mediation committees with over 6 million mediation personnel. They shoulder the heavy responsibility of mediating civil disputes and are in the "forefront" of preventing the intensification of civil disputes, preventing and reducing crime, and maintaining social order. After the CPC Central Committee put forward the principle of the comprehensive treatment of law and order in 1981, in particular, people's mediation organizations nationwide have earnestly implemented the working principle proposed by the Ministry of Justice—"combine mediation with prevention, with emphasis on prevention"—and have been instrumental in preventing and reducing crime and unnatural deaths. According to incomplete data compiled by the Ministry of Justice for 1986 and 1987 alone, these organizations mediated a total of more than 14 million cases, prevented the conflicts from worsening, and avoided the losses that might have occurred otherwise. People's mediation work has become a basic and indispensable part of the comprehensive treatment of law and order. By reviewing and exchanging experience, commending mediation organizations and personnel who have rendered meritorious services, furthering the understanding of mediation work, and formulating new policies in light of changing circumstances, this conference will give further impetus to people's mediation work and expedite the realization of the comprehensive treatment of law and order.

At this conference, 415 advanced mediation personnel and 65 advanced mediation organizations were commended and given awards. They represent the nation's vast numbers of people's mediation workers and epitomize their moving achievements and noble spirit in mediating disputes for the masses and preventing disputes from intensifying, undeterred by hard work, indifferent to gains and losses, unafraid of difficulties, and

eager to devote themselves to mediation work. Their efforts and contributions to society, to party, and to the people are unforgettable. Their lofty spirit is worthy of emulation by the whole nation, particularly political and legal cadres and policemen.

Today reform has entered a critical period in China. To ensure smooth progress in reform and opening to the outside world, the CPC Central Committee recently said that we must create a stable social environment. On the whole, law and order remains basically stable at the moment, but we still face a grim law-and-order situation ahead and cannot afford to be careless. On the one hand, public security and judicial authorities must continue to firmly crack down on crime harshly and swiftly. On the other hand, we must keep enlisting forces in all social quarters to further implement and intensify the comprehensive treatment of law and order. In this people's mediation organizations and workers must play an active role. People's mediation has its own characteristics and strengths. Through the network of mediation organizations that can be found at the grassroots in all urban and rural areas and reaches myriad households, people's mediation is good at detecting and predicting quickly and sensitively all sorts of civil disputes and the slightest signs that these disputes may escalate. Living amid the masses, people's mediators understand the people's joy, anger, sorrow, and happiness. Taking advantage of their strengths such as their familiarity with the disputants and the locality, and the fact that they are in the neighborhood, the mediators take the initiative to mediate disputes in a timely way and prevent them from getting worse. As a result, they prevent disputes from occurring or nip a crime in the bud. Governments and political and legal organs at all levels should fully appreciate people's mediation, throw their weight behind it, and provide it with every kind of necessary support and legal protection. The conference that opened today may be described as a good beginning for the effort to establish mediation work as honorable and reward those who have contributed to it. I hope that people from various news and press departments who are here today would also use the media in their hands to widely publicize and commend the moving achievements and noble spirit of people's mediators, explaining to the people their status and the function of their work, thereby creating a favorable public opinion for the continued development of the people's mediation system in China.

Finally, may I wish you a very successful conference. I sincerely hope that people's mediation work across the nation would take on a new face because of the conference and that comrades and groups who were commended today would guard against arrogance and rashness and continue to exert themselves to make new contributions for the people and society.

Educational Spending per High School Student 'Far Cry' From Meeting Need

40050005a Shanghai JIEFANG RIBAO in Chinese
15 Jul 88 p 6

[Article by Li Liping 2621 7787 5493: "More Educational Spending Needed to Improve Educational Quality"]

[Text] Educational spending is a hot conversation topic these days. The cost of educating a high school student, for instance, is one aspect of educational spending that often comes up in our discussion on this topic. I wanted to do some detailed studies on the norm in educational spending per student and find out how much it really cost to turn out a high school student.

I have been to six provinces and municipalities, including Jiangsu, in recent years to research educational spending per student. I also have collected materials and data on regions such as Yunnan that are at different levels of economic development. This has given me a general idea of educational spending per high school student nationwide.

What does so-called educational spending mean? It refers to the funds required to educate a student for a year. The figure is usually arrived at by dividing a school's total yearly spending by the average of the number of students at the beginning of year and the number of students at the end of year. There are different standards for educational investment, the minimum being what it takes financially to maintain a school's daily teaching activities. But that is not enough; we should also make sure that it turns out students who meet certain standards and requirements.

Educational spending falls into two types: recurrent expenditures and capital expenditures. The latter is a one-shot investment and is relatively rare for a school. In my educational spending research, I emphasized recurrent expenditures. For statistical purposes, such expenditures are divided into 10 items in two categories. The first category consists of personnel costs and is made up of these four items: wages, supplemental wages, welfare funds, and funds paid to retired personnel. The second category consists of public expenditures and is made up of six items: fees, operating expenses, equipment costs, repair costs, rents, and others. Since there is an acute shortage of educational funds in China and personnel expenditures are inelastic, we usually have to make do with what is available as far as public expenditures are concerned and cannot afford to talk about proper standards. But the fact is that by influencing the educational conditions, the amount of public expenditures available has a direct impact on the quality of education.

Then how much in public expenditures does it cost to educate a qualified high school student?

Take a comprehensive high school, for instance. Suppose there are four classes at each grade and 40 students in

each class. The total enrollment would be 960 students. Let us further suppose there are 2.5 teachers and 3.5 staff members per class, so the total number of teachers will be 60, the total number of staff members, 84. Public expenditures consist of the following six items:

Item one: fees, including: 1) administrative expenses; 2) water and electric charges; 3) posts and telecommunication fees; 4) hotel charges; 5) publicity expenses; 6) repair fees, and 7) others. It takes about 15 yuan to cover the above 7 subcategories for each high school student on the average annually.

Item two: operating expenses, including: 1) notes and handout fees; 2) physical education charges; 3) teachers' continuing education expenses; and 4) laboratory expenses. In addition, there are expenses to cover scientific and technical activities and extracurricular interest group activities and medical costs. This item amounts to about 10 yuan per student each year on the average.

Item three: equipment costs, including books, newspaper and magazine subscriptions, about 30 yuan per student in all.

Item four: repair costs, about 60 yuan per student.

Item five: rents, about 3 yuan per student.

Item six: other expenses, about 5 yuan per student.

The six items of expenses above, which together make up public expenditures, amount to 123 yuan per high school student.

Based on more appropriate standards, the public expenditures of a high school should account for 40 percent or thereabouts of its total spending. Should that be the case, combined personnel and public expenditures per high school student would be 308 yuan.

Current data show that actual educational spending per high school student was 96.91 yuan and 107.62 yuan in 1983 and 1984, respectively, a far cry from what is needed. To be sure, educational spending has been climbing at the annual rate of 15 percent in recent years, but the bulk of new investments in education has gone to personnel and educational conditions have improved little. The calculations above, moreover, represent minimum expenses necessary to keep the schools functioning normally and enable them to complete their teaching programs and turn out qualified high school students, leaving out of account the acquisition of some advanced modern equipment. This goes to show that the state need to increase educational investment gradually, financial circumstances permitting, in order to nurture a bumper crop of qualified high school students. Also, do these figures not suggest something to our vast numbers of high school students and their parents?

EAST REGION

Article Asserts Taiwanese Writer's 'Envy' Misplaced

40050004d Jinan DAZHONG RIBAO in Chinese
4 Jul 88 p 2

[Article by Zhang Daolu 1728 6670 6424: "Government Officials Should Be Achievers As Well As Honest"]

[Text] Discussing literary creation on the mainland, Ms. Chen Ruoxi [7115 5387 2569], the well-known Taiwan writer, said, "I envy those Chinese writers who have not written a word in 30 years but can still travel from place to place enjoying the beauty of nature and experiencing life." She did not say much, but her word "envy" was shocking.

The lifestyle of those writers Ms. Chen Ruoxi finds so enviable embodies the philosophy of muddling through. Muddling through started out as the stock in trade of people in officialdom. It was played out continuously with no intermission on the stage of history. Even Li Hongzhang, who lived in the late Qing Dynasty, saw through it. He said, "The easiest thing in the world is to be an official. If a person cannot even be an official, he is pretty useless." During the Cultural Revolution, the ranks of those who muddled through swelled. Today, as economic structural reform intensifies, people who muddle through have decreased, but a substantial number still carry on as usual. Some spend an entire day reading a newspaper, sipping a cup of tea, and smoking a pack of cigarettes. Some gossip from morning to night instead of doing anything useful. Some are "tourists" who are always busy visiting places. Some are... While not as hated as gluttonous "big bellies" and "big fangs" who kidnap and grab, these people are no different from dishonest government officials as far as the harm they do to the cause of the party is concerned. Corrupt government officials should be removed. So should do-nothing officials; they must not be allowed to continue to muddle through.

I am all for honest government, but I also think an official should be an achiever. It is not enough for a member of the CPC to be free from corruption. He must also achieve something—do his best for the development of productive forces and contribute to the four modernizations. May honesty in government be a way of life. May achievers in government be the norm, not the exception. Never again should we let insightful people like Ms. Chen Ruoxi "envy" us.

12581

Party Membership Drive in Anhui Emphasizes Quality

40050004b Hefei ANHUI RIBAO in Chinese
3 Jul 88 p 1

[Text] In recent years the party membership drive in Anhui Province has made new progress. Last year 7,000 new members were recruited. Because of the new emphasis on improving the composition of party membership,

marked changes have occurred. Compared to 1980, the number of party members in the province with more than a senior high school education has doubled. About one-quarter of party members are young people under 35 years of age and as high as 35 percent are professional or technical personnel.

Party organizations at all levels throughout the province have implemented the CPC Central Committee's guiding principle on membership drive, firmly observed the principle of "ensuring quality and improving composition," and recruited party members on a regular basis in a planned and focused way. All localities have stepped up macro guidance, emphasized the caliber of party members, and made the adherence to party membership standards and the ensuring of quality a top priority. It was made clear that in the new situation of reform and opening to the outside world, party membership qualifications as stipulated in the party constitution consist primarily of support for the party line since the 3d Plenum of the 11th CPC Central Committee, steadfast observance of the four cardinal principles, consistent pursuit of reform and the open policy, ideals, discipline, and a spirit of sacrifice and willingness to serve the people wholeheartedly and struggle for the building of socialism with Chinese characteristics. A corps of party activists of an appropriate size and caliber has been put together throughout the province. By the end of last year, as many as 350,000 activists had applied to join the party. Many localities have drawn up party membership recruitment procedures, from determining who is an activist through training, education, and evaluation to developing and preparing for the promotion of probationary members to full membership, and operate in strict accordance with established rules. A work system has been established and perfected. Grassroots party organizations examine, report on, analyze, and review work at regular intervals and promptly resolve any problems uncovered. A province-wide party-member quality examination has been conducted every year for the past few years.

Clear guiding thought, strict party admission standards, and an emphasis on political quality have ensured a high caliber of people among new party members. According to statistics, of all new members recruited in 1987, advanced models commended by the central and provincial governments totalled 125, and over 6,500 received such comments as advanced and exemplary and awarded all sorts of honorable titles. Many new party members have taken up leadership positions at all levels or are key production or professional workers. In their current membership drive, party organizations at all levels have taken pains to recruit new members from the forefront of production and avoid the exclusive pursuit of quantity at the expense of quality, of academic qualifications at the expense of political and ideological quality, thus doing an even better job in the process.

12581

Fujian Procuratorial Agencies Urged To Crack Down on Crime

40050004c Fuzhou FUJIAN RIBAO in Chinese
11 Jul 88 p 1

[Text] At a recent conference for organizational and departmental cadres held to study the spirit of the ninth enlarged plenum of the Politburo of the CPC Central Committee and the eighth plenum (enlarged) of the fourth Fujian CPC Committee, the provincial people's procuratorate emphasized that procuratorial authorities must have a clear understanding of the situation; enforce the law rigorously, strengthen legal supervision; fulfill their functions of cracking down on crime, protecting reform, and serving the economy; and contribute to economic prosperity and honesty in government.

—**Crack down on crime.** In conjunction with public security authorities and the courts, procuratorial organs today must crack down harshly on criminal activities that seriously disrupt social order and reform with disastrous results and violate the criminal law; and hit out at violent crime such as murder, robbery, and rape, and other evil social practices in order to maintain law and order. The more reform is intensified and the economy vitalized, the more vigorous the struggle against economic crime must be; under no circumstances can it be relaxed. For a prosperous economy and an honest government, the procuratorial organs must do the best job they can. Right now they should zero in on personnel in party and state organs who exploit their office by taking bribes and committing crimes. As long as an activity constitutes a crime as proved by solid evidence, the procuratorial authorities must pursue the case to the end no matter who is implicated. They must firmly crack down on crime and never tolerate and abet evil.

—**Protect reform.** Procuratorial organs should take the initiative to protect the development of multiple economic forms, the dominant one being public ownership, and multiple distribution methods, the most important being distribution according to work. The emphasis right now is to protect enterprises funded by the "three capital sources" and the legitimate interests of businessmen from Taiwan, Hong Kong, and Macao, overseas Chinese, and foreign investors, and safeguard and promote the development of an export-oriented economy in Fujian. Procuratorial organs must steadfastly protect the legitimate earnings of scientific and technical personnel and intellectuals derived from the services they offer in their spare time in compliance with the appropriate regulations and the transfer of intellectual properties. They should safeguard the market's regulatory function. Criminal violations in the realm of commodity circulation must be treated on a case-by-case basis analytically. Where the activity in question is not explicitly prohibited by law but is regulated differently in separate documents, the procuratorial organs must proceed in accordance with one of the regulations. Where the activity concerned has been proven in fact to benefit the

development of productive forces even though it violates the relevant regulations, the procuratorial organs should not hastily consider it a crime and act accordingly. Trumped-up charges and retaliations against reformers, entrepreneurs, intellectuals, and scientific and technical personnel must be handled promptly and pursued vigorously. Once discovered, mishandled cases must be rectified firmly and the aftermath dealt with properly so as to mobilize enthusiasm for reform.

—**Serve the economy.** Procuratorial organs must take the initiative to establish close contact with enterprises and help them operate within the law to develop the economy. They should take the initiative to go deep into rural mines and enterprises to strengthen ties with leading cadres and managerial personnel and offer them legal consultation. They should alert enterprises to popular crimes of the times and save them from being duped, prevent guoge behavior, and prevent and reduce crime. In handling economic cases, they should help enterprises maintain good relations and avoid a disruption in economic intercourse which might affect production and operations. They should be the enterprises' troubleshooter and set up "people's procuratorate crime report centers" in a planned way. They should improve the way in which people who file charges or lodge complaints are received and the system of setting aside a day on which the chief procurator receives complaints personally. Complaints and reports filed by enterprises funded by the "three capital sources" and those in the "three forms of processing and compensation trade" should be handled ahead of others. Every single case should be looked into and resolved.

Cracking down on crime, protecting reform, and serving the economy—the three are consistent with and complement with one another; they cannot be separated. To do this job well, the most critical thing is to develop new thinking, make ourselves more reform-minded, foster the notion of serving the development of social productive forces, and make the establishment of a new order with a socialist commodity economy that benefits the furthering of social productive forces the basic criterion in the guiding thought behind procuratorial work and the yardstick for evaluating such work.

12581

Zhejiang Governor Shen Zulun Calls for Personal, Administrative Efficiency

40050004a Hangzhou ZHEJIANG RIBAO in Chinese
22 Jul 88 p 1

[Speech by Shen Zulun, governor of Zhejiang and Deputy Secretary of the Zhejiang Provincial CPC Committee, at conference for senior cadres: "Implement the Personal Responsibility System Across the Board"]

[Text] A conference for cadres above the departmental, commission, and office (bureau) chief level was jointly

held by the office of the Zhejiang CPC Committee and the office of the provincial government yesterday afternoon. Based on the decision of the Zhejiang CPC Committee and the provincial government, the conference made plans for the full-fledged implementation of the personal responsibility system in provincial agencies.

Shen Zulun [3088 4371 0243], Wu Minda [0702 2404 6671], Xu Xingguan [6079 5887 6306], Wang Zhonglu [3769 6988 7785], Chai Songyue, [2693 2646 1471] and other party and government leaders in the province attended the conference.

Deputy Director Xu Wanshan [1776 8001 1472] of the Zhejiang Rural Policy Research Office, Vice Chairman Wang Yongming [3769 3057 2494] of the Zhejiang Planning and Economic Commission, Director Ye Changfa [0673 7022 3127] of the Statistics Bureau, and Director Chai Ying [2693 3853] of the office of the provincial government addressed the gathering and described how they set up the personal responsibility system.

In his speech to the conference, Governor Shen Zulun, who is also deputy secretary of the Zhejiang CPC Committee, said, "To make provincial agencies more efficient and better serve modernization in the province, the provincial party committee and provincial government have decided to introduce the personal responsibility system in provincial departments more extensively. This is an important measure in strengthening scientific management in departmental work. For years scientific management has been absent from such work. Functions are ill-defined and since work is not evaluated, good and poor workers are treated alike. Everybody works as his party spirit and conscience guide him. Work and benefits are not fairly distributed. Earnest and diligent workers do not receive due rewards while a handful of people have become habitually lazy with no ambition to advance themselves. If unchanged, this situation would be extremely harmful to economic development in Zhejiang and is certain to lead to a decline in the caliber of the corps of departmental cadres, even to the point of

rendering provincial departments incapable of managing social economic development in Zhejiang. The broad introduction of the personal responsibility system and other moves to step up management are what is needed to end the current failure of provincial agencies to do the job they should."

Shen Zulun emphasized, "To establish a personal responsibility system in provincial departments, we must begin by setting goals and defining responsibilities and assigning them to sections, offices, all the way down to each cadre. Moreover, we have to decide on an evaluation score for each goal or task. The methods of evaluation should largely reflect reality as much as possible and should be easy to carry out. There should be an evaluation every six months and a general review at year end. The implementation of the responsibility system should be a more effective form of political and ideological work in departments. Political and ideological work should permeate the entire process, from formulation and implementation through evaluation to the granting of rewards. Units and individuals who fulfill their tasks satisfactorily must be rewarded. The rewards should be primarily spiritual, to be supplemented by material ones, if necessary. The purpose behind the personal responsibility system is to improve work. To do so effectively and make the most of the responsibility system, however, we need to offer some material rewards. The results of the annual evaluation of the implementation of the responsibility system by units and individuals should be made public. An individual's performance should be recorded and kept on file to serve as the basis for promotion and wage increases."

Shen Zulun demanded that the implementation of the personal responsibility system be made a basic part of construction in provincial departments. The leaders of all agencies and units should take charge of it in person, unify the thinking of key personnel, mobilize the entire staff, concentrate their energies on its success, and continuously improve it through practice.

12581

Li Yu Outlines, Reiterates Dangers of 'Basic Law'

'Hideous Features' Mirrored

40050349a Hong Kong CHENG MING
[CONTENDING] in Chinese No 128, 1 Jun 88 pp 27-31

[Article by Li Yu 2621 3768: "A Basic Law Harmful to Hong Kong"—sentences in boldface as published]

[Text] Editor's note: This article should be carefully read by every Hong Kong person and every Chinese and foreigner concerned about the fate of Hong Kong. It reveals like a magic mirror the hideous features which the Chinese Communists are covering up with the Basic Law Draft and their unspoken aims. We ask that the Chinese Communists listen to the unpleasant good advice of this article, abandon their out-of-date ideas, and eliminate the many snags in the "Draft Basic Law."

The publication of the "Joint Sino-British Declaration" in September 1984 ended the ideological confusion of the residents of Hong Kong and Hong Kong's future dawned. I had written an article praising the "Joint Declaration" for being able to embody the principle of "one nation, two systems" and had the same feelings as Sir Zhong Shih-yuan [6988 1102 0337]: it was much better than I had anticipated.

But not long afterwards, the "Joint Declaration" was defiled by the Chinese side, such as saying that "Hong Kong people governing Hong Kong" was unscientific; explaining the "responsibility" of the administrative body to the legislative council as "having the duty to explain and interpret and the duty of consultation"; the consultation committee was to have been made up of persons from the Chinese side, but the election of the executive committee of the consultation committee was a complete farce which was explained as "consultation is also election...."

The Chinese side shrunk step by step from the "Joint Declaration," "high degree autonomy" became "high degree of efficiency," and this could not but be seen as the hopelessness of the basic law which was subsequently drawn up and no matter how the articles were written, the Chinese Communists would always be in control. Thus, during the past few years I haven't put down a word on the matter of what was in store for Hong Kong, feeling that it was a waste of time and ink.

I also was not interested in obtaining a copy of the April 1988 "Draft of the Basic Law of the Hong Kong Special Administrative District of the People's Republic of China." A "well-intentioned person" sent me a copy but I was slow in reading it. Two newspapers urged me to write some views on the "Draft Basic Law" but I also seemed impatient. One reason was that instinctively I felt that the text of the basic law would be attractive but if the political and legal ideas of the Chinese Communist were not changed, it would not be of much use; the second reason was that reading the 62-page "Draft Basic

Law" would waste a great deal of time and a great deal of brain power; the third reason is hard to express. The Chinese Communists have a particular disposition: if you want to criticize one part of them, you must commend nine parts of them—i.e., Mao Tse-tung's "the relationship of nine fingers and one finger"—or at least like the enlightened Hu Yao-bang's "eight-two exposure," i.e., eight parts accomplishment and two parts error. Only if you go along with this disposition of the Chinese Communists will they be happy to listen; if you criticize too much and praise too little, they may think you are not well-intentioned or "have ulterior motives"; if you criticize everything, they will dismiss you as a "reactionary views" and if you are also within their jurisdiction, they might also seize you and punish you.

This essay is naturally entirely critical, and I don't care about the Chinese Communist reaction. An ancient teaching goes: "Honest advice, though unpleasant to the ear, induces good conduct."

Attach Importance to One Nation, Ignore Two Systems.

Initially, the "Joint Sino-British Declaration" was some distance from the initial position of the Chinese Communists—"as long as the British flag is lowered, the colonial symbols are removed and the Chinese flag is flown, there will be no other changes, nor will cadres or troops be sent." The residents of Hong Kong generally accepted the "Joint Sino-British Declaration" because in the period between 1981 and 1984 Hong Kong people had been through a series of trials and even terrifying setbacks, their hopes had contracted and thus we accepted the joint declaration. The joint declaration said: "Except for foreign relations and national defense being under the jurisdiction of the government of the People's Republic of China, the Hong Kong Special Administrative Region will enjoy a high degree of autonomy." But this is not the case with the present "Draft Basic Law." Hong Kong's basic law was formulated and interpreted by the Standing Committee of the National People's Congress, and in addition to national defense and foreign relations, there are also so called "executive acts" of the central government, the State Council also can directly "issue orders" to Hong Kong and even the "Constitution of the People's Republic of China" does not have anything like "prohibits by law any acts which damage national unity and subvert the central people's government," but the Hong Kong "Draft Basic Law" does and that means that the basic law of Hong Kong is much more dictatorial in political terms than the Chinese constitution.

Because the Standing Committee of the National People's Congress (actually, the Communist Party as well) have monopolized the right to interpret the Hong Kong Basic Law, this has people even more concerned. This is because the political views and legal views of the Chinese Communist Party are different. For example, there is a

big difference between Hong Kong people and the Chinese Communist Party in the understanding of "nation" in "one nation, two systems" in the "Preface."

Hong Kong people's interpretation of "nation" refers to territory, people, history, culture, and sovereignty. Since Hong Kong will revert to China on 1 July 1997, there is absolutely no question about "sovereignty," it is not necessary to stress sovereignty everywhere and give expression to sovereignty everywhere.

The Chinese Communist understanding of "nation" comes from the texts of Marxism-Leninism, "nation" is "the tool of the ruling class," "nation" is "a device for one class to oppress another class."

For the Chinese Communists to stress "one nation" in the Basic Law is the same as stressing a device of oppression or an agency of suppression. Yet "two systems" in essence leaves only the economic system, that is, the Chinese socialist economic system and the Hong Kong capitalist economic system, **dropping the most important "political system" and leaving Hong Kong only a pitiful "political organization."**

However, a "political organization" is not the same as a "political system," just as reform of the "political organization" on the Mainland is not the same as reform of the "political system." Let alone that such a pitiful "political organization" left for Hong Kong is still controlled by the Chinese Communists.

The Existing Economic System Is Also Not Definitely Guaranteed.

Although the "Draft Basic Law" stipulates "the Hong Kong Special Administrative Region will not implement the socialist system and policies and will maintain the original capitalist system and way of life unchanged for the next 50 years" (Article 4) and also stipulates "property ownership rights, including the right to acquire, use, dispose of and inherit property and the right to compensation for property requisitioned in accordance with the law will all be guaranteed by law" (Article 6), but there is no article such as those generally included in constitutions of capitalist countries which stipulates that "the sanctity of private property is inviolable." Further, the right to interpret the Basic Law is also vested in the Standing Committee of the National People's Congress and subsequently questions may arise:

First, the "capitalist system" itself may change. In many capitalist countries today state-owned enterprises make up a very large proportion but they are still called capitalist.

Second, "right of property ownership...will be guaranteed by law" at some point may be interpreted as "the Basic Law does not stipulate that the right to ownership of private property is guaranteed by law! Only the right of state property or right of publicly owned property can

be guaranteed." This isn't something the author thought up out of whole cloth. The "Common Program" of 1949 had an article stipulating that "private property is guaranteed." In the process of carrying out this article at the time, Teng Tzu-hui [6772 1311 1863] emphasized that from the perspective of legal concepts, in "ensuring private property," "ensuring" and "guaranteeing" are basically the same thing, "guarantee private property" was the law of the land, and in the process of carrying it out he stressed that "ensuring private property" was to implement the law of the land better, but it was immediately criticized by Mao Tse-tung who said "The law says guarantee private property, not 'ensure'. The peasants are buying land now and this is bad. The law does not prohibit it, but we should work to prevent the peasants from buying land." (See "Selected Works," Chapter 5, p 17.)

Thus this writer suggests that the basic law must clearly stipulate that the sanctity of private property is inviolable and will not change for fifty years. Otherwise, in the future leftists may come to power in China and a similar article in the Basic Law may be "interpreted" as something completely different.

Article 17 Is Very Dangerous.

This article says: Except for laws pertaining to national defense and foreign affairs, "and others related to expressing national unity and territorial integrity and not within the scope of the high degree of autonomy of the Hong Kong Special Administrative Region, all which must be implemented in the Hong Kong Special Administrative Region, and directives from the State Council will be made public or legislated and implemented locally by the Hong Kong Special Administrative Region." "If the Hong Kong Special Administrative Region government does not operate in accord with the directives of the State Council, the State Council may issue orders to implement the above-mentioned laws in the Hong Kong Special Administrative Region."

The great danger in these articles is:

First, they violate the Joint British-English Declaration. Section 2 of Article 3 of the Joint Sino-British Declaration is: "Except for foreign affairs and national defense which are under the control of the Government of the People's Republic of China, the Hong Kong Special Administrative Region enjoys a high degree of autonomy." However, "Article 17" of the Draft Basic Law adds to the laws of national defense and foreign affairs "and others related to expressing national unity and territorial integrity..." so that the so-called "high degree of autonomy" is an empty shell.

Second, What is "and others related to national unity and territorial integrity"? The "Draft Basic Law" neither delimits nor defines it. Thus the article which is "mystery of mysteries" will greatly disturb the will of Hong Kong people.

Third, After Hong Kong reverts to China on 1 July 1997, Hong Kong will implement the first article of the "Draft Basic Law" "General Principles"—"The Hong Kong Special Administrative Region is an inseparable part of the People's Republic of China." As far as Hong Kong is concerned, the matter of "national unity" and "territorial integrity" will no longer exist. Why did the gentlemen of the Drafting Committee add unnecessary embellishments?

Fourth, even though we say that Taiwan is still not unified thus the "nation" is not "unified" and "territory" is not "integrated," Taiwan is not under the jurisdiction of Hong Kong and if Taiwan does not wish to be unified under the Chinese Communists, then what does that have to do with Hong Kong?

Fifth, as was said above, since Hong Kong will revert to China in July 1997, as far as Hong Kong is concerned, the problem of "national unity" will no longer exist. Hong Kong's only problem with the "nation" not being "unified" is expressed in that the existing capitalist system and way of life will be maintained unchanged for 50 years and Hong Kong's existing legal system will be maintained. Thus have the Chinese Communists laid a trap in the "others related to expressing national unity" so that in mid-course they can overturn the "unchanged for 50 years" of Article 2 of the Joint Sino-British Declaration and the "unchanged for 50 years" of Article 4 of the Basic Law?

Sixth, "and others related to expressing national unity and territorial integrity" is also defined by the State Council that is, the State Council at any time can use this article at will to label and bludgeon the Hong Kong Special Administrative Region and its residents. This is because no one can now figure out what "others related to" means.

Seventh, the State Council also can directly "issue orders" to Hong Kong to be "implemented" in the Hong Kong Special Administrative Region, and this provides the State Council with legal basis for directly involving itself with the affairs of Hong Kong as well as providing legal basis for the State Council to abuse its authority in Hong Kong.

In view of the great danger to Hong Kong of article 17 of the basic law and that it also violates the Joint Sino-British Declaration, and at the same time is in contradiction with "Article 4" and "Article 8" of the "Draft Basic Law," this writer suggests that they be completely deleted.

Article 18 Has Confused Hong Kong.

Article 18 of the "Draft Basic Law" says: "The Courts of the Hong Kong Special Administrative Region have no jurisdiction over national defense and foreign affairs which are managed by the government of the People's Republic of China and cases of executive acts of the

Central People's Government. If the cases to be tried by the Courts of the Hong Kong Special Administrative Region involve matters of national defense and foreign affairs and executive acts of the Central People's Government, they should seek the opinion of the administrative officer. The letters issued by the administrative officer with regard to the matter in question will be binding on the courts." "Before the administrative officer issues the above-mentioned letters, he must obtain a certificate from the Standing Committee of the National People's Congress or the State Council." There are the following problems with this:

First, the Joint Sino-British Declaration stipulates that the Central People's Government is only to deal with national defense and foreign affairs and does not mention "executive acts of the Central People's Government."

Second, What is "executive acts"? The "Draft Basic Law" does not mention this nor is it defined.

Third, a general interpretation of "executive act" actually is administrative management, ranging from dealing with politics, the economy, finance, trade, taxation, posts, communications, personnel, civilian government, culture and education, and traveling in and out of the country. Does this mean that the Central People's Government can intervene at will in the administrative affairs of Hong Kong?

Fourth, the Central People's Government can carry out "executive acts" in Hong Kong at will and the Article 1 stipulates that the Hong Kong courts "have no jurisdiction," and this provides the Central People's Government with the legal basis to abuse their administrative power. Next, if the Hong Kong courts discover the "executive acts" of the Central People's Government do not conform to the "high degree of autonomy" stipulated in the Basic Law, first of all they must seek the opinion of the Hong Kong administrative officer, and the administrative officer of Hong Kong must "obtain a certificate from the Standing Committee of the National people's Congress or the State Council" in advance, but the State Council is the Central People's Government, that is if the State Council is abusing "executive acts" in Hong Kong, and if the Hong Kong government is dissatisfied and wishes to "try it," they must secure permission from the State Council. **In this way not only does the "high degree of autonomy" vanish, that is the juridical independence of Hong Kong also vanishes, but it provides a bad precedent for administrative meddling in justice.**

Operating according to Article 18, Hong Kong is bound to get muddled. If it also integrated with Article 17, the State Council can directly "issue orders" to Hong Kong and the right to interpret the Basic Law also will revert to the Standing Committee of the National People's Congress, so no matter what the "executive acts" of the Central People's Government in Hong Kong, it can be interpreted as "expressing national unity and territorial

integrity." Thus, Hong Kong is better off being governed directly by the Chinese Communists to save themselves the trouble of "expressing national unity and territorial integrity."

Intentionally Holding Back a Trick or Two To Facilitate Party Rule of Hong Kong

Article 21 of the "Draft Basic Law" says: "The departments, provinces, autonomous regions, and cities under central jurisdiction of the Central People's Government may not interfere in the affairs of the Hong Kong Special Administrative Region which are to be managed by them according to the Basic Law....if the departments, provinces, autonomous regions, and cities under the central jurisdiction of the Central People's Government need to set up agencies in Hong Kong, they must solicit the agreement of the government of the Hong Kong Special Administrative Region and the permission of the Central People's Government."

This article seems on the surface to be high-sounding, but it intentionally has a trick up its sleeve—party committees are excepted.

This is like the case of the Constitution of the People's Republic of China, Article 128 of which says: "The People's Court exercises judicial authority independently in accordance with the law without the interference of administrative agencies, organizations and individuals" and Article 133 of which says: "The People's Procuratorate exercises procuratorial authority independently in accordance with the law without the interference of administrative agencies, organizations and individuals," that is "administrative agencies," "organizations," and "individuals" must not interfere, intentionally failing to mention that political parties must not interfere. Thus it is natural that various levels of the Chinese Communist Party interfere with the courts and procuratorate.

Now Article 21 of the "Draft Basic Law" has limitations on "departments of the Central People's Government," "provinces," "autonomous regions" and "municipalities directly under central government" but does not limit Chinese Communist Party organizations. **This leaves a large loophole making it easy for the "Chinese Communist Central Hong Kong Work Committee" to govern Hong Kong.** The author does not oppose the Chinese Communists directly governing Hong Kong, and even feels that it would be better for the Chinese Communists to govern Hong Kong directly than for "Hong Kong people" who fawn on the Chinese Communists to govern Hong Kong, because at least it's clear who's in charge, so that we don't have "Hong Kong people" pushed to the front but directed by Chinese Communists behind the scenes, carrying out an Empress Dowager Tz'u Hsi-type feudal control.

Article 22 Has Scared Away Hong Kong People.

Article 22 of the "Draft Basic Law" stipulates "The Hong Kong Special Administrative Region should prohibit by law any acts which damage national unity and subvert the Central People's Government."

No article of this type can be found in the Constitution of the People's Republic of China. The Constitution has a total of 140 articles, but there is not one about "damages national unity and subverts the Central People's Government," so why do they insist on holding this over the heads of Hong Kong people?

The formulation of this law made me discover that the "special" in Hong Kong is not special in preserving the capitalist economic system, since the mainland as well is constantly expanding the capitalist economic elements, and even Hainan is almost a capitalist economy—but that the "special" in the Hong Kong Special Administrative Region is the "special" in Article 22.

Article 22 of the Draft Basic Law, first of all makes it clear that the Chinese Communists do not trust the residents of Hong Kong and this is one of the most classic examples of "setting up defenses everywhere."

Second, what is "behavior which damages national unity and subverts the Central People's Government"? The "Draft Basic Law" does not say.

Third, the mainland accounted for 61 percent of the drafting committee of the "Draft Basic Law" Committee while the Hong Kong drafting committee made up only 39 percent. The Hong Kong drafting committee was also split into three factions, thus the drafting committee which expressed the purposes of the Chinese Communists enjoyed absolute superiority, and the articles of the Basic Law doubtlessly also express the purposes of the Chinese Communists. However, in view of the experience of the mainland, the Chinese Communists' interpretation of "acts" is infinitely broad, Chinese Communist press is uniformly controlled by the party, so there is no way for those holding dissident views to publish, hence they print up their articles as leaflets or paste them up on walls, and this is also called "acts." Even if one does not print them up as leaflets but only voices them aloud, this can also be called "counter-revolutionary speech" and "counter-revolutionary speech" are also "acts" so it is definitely not necessary to actually pick up a knife or a gun to have it called an "act."

Fourth, countless experience proves that only important figures who have the guns and control great power are qualified to "destroy the national unity and subvert the Central People's Government." For example, Mao Tse-tung and his trusted followers Lin Piao and the Gang of Four were able to destroy national unity and fragment China. Subverting the Central People's Government was also done by Mao Tse-tung and his henchmen Lin Piao

and the Gang of Four who illegally murdered Chairman Liu Shao-ch'i and paralyzed the State Council, and this is behavior which "subverts the Central People's Government."

Fifth, the population of the Hong Kong Special Administrative Region is very small, being only 0.5 percent of the population of the mainland; the power of the Hong Kong Special Administrative Region is also very small and does not have an armed forces only a side-arms-armed police force roughly the size of two regiments, but the Central Government's special 5,000-6,000-man military units stationed in Hong Kong are equivalent to five or six regiments. Therefore, neither the Hong Kong residents nor the Hong Kong government had the ability nor the capacity to "damage national unity or subvert the Central Peoples' Government." Since this is the case, why was this article included in the Basic Law? What is the point of it?

Sixth, Hong Kong is now still a free society, and one feature of a free society is complete freedom of speech. In terms of Hong Kong's press, political commentators and scholars, on the issue of "peaceful unification of Taiwan" it is generally believed that the time is not ripe now or that "one nation, two systems" would not work on Taiwan or advocates mutual recognition. Is this to be construed as a crime which "damages national unity"?

Or, the fact that the Chinese Communists often adopt a critical attitude or criticize such people as Li Peng and even Deng Xiaoping is this to be construed as a crime which "subverts the Central People's Government"?

It is clear that the real intention of this article is to smother Hong Kong's freedom of speech and academic freedom and to force Hong Kong people to sing the same tune as the Chinese Communists. If when the time comes Hong Kong people do not shut up, but still tactlessly continue to discuss that the time is not ripe for unifying with Taiwan, that "one nation, two systems" will not work on Taiwan or continue to criticize a Li Peng-type State Council premier or criticize central government leaders such as Chen Yun and Peng Zhen, then they may incur the crime of "damaging national unity and subverting the Central People's Government."

Just this article alone is sufficient to frighten off Hong Kong people. The tide of Hong Kong migrants was really created single-handedly by the Chinese Communists.

Opening a Door of Convenience for Corrupt Officials

Article 47 of the "Draft Basic Law" says: "the administrative officer at any time should declare his property to the chief justice of the court of last instance of the Hong Kong Special Administrative Region, this declaration will be kept secret."

This writer feels that the government of the Hong Kong Special Administrative Region not only should be a government which is "honest in performing its official duties," but also should be an open government, a transparent government.

The government of the Hong Kong Special Administrative Region does not control national defense or foreign relations, thus it has no national defense secrets or foreign affairs secrets, the provincial and municipal governments on the mainland have responsibility for leading local armies, but Hong Kong does not even have a local army, and thus does not even have code secrets. This being the case, the government of the Hong Kong Special Administrative Region should be more open and more transparent than the provincial and municipal governments on the mainland.

If when in office an administrative officer only declares his property to the justices but other important administrative leaders such as the chief of the administration department, the chief of the finance department, the chief of the Legal Department, are not required to register, then in line with the Chinese work-style of "stressing feelings" in doing things (especially after losing the safeguards of British law and government), the first and second time will be for the foreigners, so maybe they will not dare make a fuss and may even be a little more honest and upright. But after it gradually becomes "the ordinary old government," it might not be honest and upright. Furthermore, the property of the administrative officer also is only reported to one person—the chief justice of the court of last instance—and is also "a secret record," that is, no third person will know and since both parties are Chinese, if the chief justice and the administrative officer are in cahoots, what can be done about it?

The other senior level government officials also do not have to declare their property and the problem here is more serious. First, there is the "mutuality," and this is bound to develop into "bureaucrats shielding each other" and in this way it opens wide the door of convenience for corruption.

The experience of the Chinese mainland tells us that when Chinese Communist cadres first controlled the government, there definitely was a sense that they were "made of special stuff" and they were very honest and upright. This writer has lived through two dynasties and feels that there is a world of difference between the Communist Party and the Nationalist Party. Yet the corruption of Nationalist Party members at that time was something our village children also could see, sentries were posted along the road to collect taxes and the taxes they collected went into their own pockets.

The honest and upright work style of the Chinese Communist cadres did not last long before it gradually changed. First it was individual cadres engaging in graft—but this was still not important because even a tall

tree has withered branches and it still did not influence the Chinese Communist cadres' reputation for honesty and uprightness—but hey! after a few short 7 or 8 years, a generally corrupt atmosphere arrived. First it was petty, taking the backdoor and “mutuality”; then it became major even to “bureaucrats shielding each other” and in less than thirty years, Chinese Communist officials are generally corrupt and by now it has reached an irremedial state.

Can it be that they do not want to guard against the possibility of this developing among the Hong Kong Special Administrative Region officials?

Corruption among Chinese officials and officials of other countries in the East is traditional, thus this writer proposes: **The administrative officer and leading public servants at all levels of the Hong Kong Special Administrative Region not only should declare their property but also should make it public to all the residents of Hong Kong and every year should make public the taxes they paid, otherwise it may not be possible to ensure that the government of the Hong Kong Special Administrative Region is an “honest” government. If they are not willing to make them public, then they should not be officials.**

Completely Lacking in Democratic Sincerity

From beginning to end one cannot see in this Basic Law which will govern for 50 years any tendency for development of democracy. One does not see articles on balance of authority nor does one see any democratic goals, the authority of administrative officer is especially large, greater than the present Hong Kong governor. But do not forget that the Hong Kong governor has absolute power in Hong Kong but is restrained by British democratic politics. China is a system of centralized power, and is a system of centralized party power. The authority of the administrative officer of the Hong Kong Special Administrative Region will be as great as those of the present Hong Kong governor, but I daresay, of necessity it will be a government of corrupted power. It is not necessary to give more reasons.

The above eight issues are sufficient to destroy Hong Kong, to topple Hong Kong. The reason why can be figured out from these articles and the fundamental cause is because the Chinese Communists can control Hong Kong's authority. But the proof of historical experience is that the greater the power controlled by the Chinese Communists on the surface they may appear to be victorious, but actually the more their defeats. The authority of the Chinese Communists is great, and the authority of the people is small, the Chinese Communists run many affairs, but the people run few, ultimately they become persons with no support, and the people have no room to give play to their initiative and positive natures. The shadow of the “lazy people” is hovering over Hong Kong.

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‘Executive Acts’ Questioned

40050349b Hong Kong CHENG MING
[CONTENDING] in Chinese No 129, 1 Jul 88 pp 62-63

[Article by Li Yu 2621 3768: “On Answers to the Question of ‘Executive Acts’”]

[Text] Putting the Question

After my article “Basic Law Harmful To Hong Kong” was published in the June issue of CHENG MING, because I discussed “executive acts of the Central People's Government” in the section entitled “Article 18 Which Has Confused Hong Kong,” a reader called me on the telephone to ask are “executive acts” “acts of state?” At the time my answer was: executive acts can include acts of state, but they are not equivalent to acts of state. I asked him why he had put this question, since he was a middle school teacher and not a lawyer. He said he had “seen it in today's ‘Bulletin’.”

The author immediately found a copy of the “Bulletin” for 3 June to have a look, but it was a discussion by Professor Hsu Shih-hsiung [1776 2508 7160] of the University of Hong Kong. According to Professor Hsu, on the basis of “the results of consultations with persons in the legal world,” the concept of “executive acts” actually covers two aspects: 1) “acts of state,” and 2) “facts of state.” According to common law, the courts have no judicial authority over the “suitability” and “legality” of “acts of state” and all “facts” involved in “acts of state” are verified by executive agencies and the courts cannot dissent. Professor Hsu believes that Section 3 of Article 18, “the Hong Kong Special Administrative Region has no jurisdiction over cases involving national defense and foreign affairs managed by the Central People's Government and the executive acts of the Central People's Government” does not violate the Joint Sino-British Declaration.

1) It is unknown whether Professor Hsu consulted persons from Chinese legal circles or persons from Hong Kong legal circles. 2) Professor Hsu has covered a Chinese legal concept with a Western legal concept.

“Acts of state” in Western common law actually refers to acts of national defense and foreign affairs, such as declaration of war, concluding treaties, garrisoning troops, establishing diplomatic relations, appointing ambassadors, etc., and no court has the power to hear them, so naturally the Hong Kong courts being local government would have even less jurisdiction.

Thus the “executive acts of the Central People's Government” of Article 18 is excessive and superfluous, because above it had already stated clearly the “national defense and foreign affairs” managed by the Central People's Government.

The Chinese Interpretation of "Executive Acts"

If the articles of Chinese law are looked at from the perspective of Western legal concepts, they will not be understood. Using the concepts of Western law to view Chinese courts and lawyers also will also be baffling. For example, a Chinese defense attorney often does not plead for the accused, but is engaged in "persuasive mobilization" of the accused wanting the accused to admit the accusation so as to receive "leniency for confession." The Chinese still do not accept "innocent until proven guilty" which is commonly accepted internationally.

"Executive acts" is definitely not as interpreted by "some persons in legal circles" consulted by Professor Hsu, but has a completely different interpretation.

I did not cite this interpretation in "Basic Law Harmful To Hong Kong" because I was afraid the article would be too long. Now I will copy the Chinese interpretation for the readers:

What is an "Executive Act?"

"State executive act agencies bring about the effects of laws by carrying out state administrative management in accordance with the law." Depending on differences in the object of the acts, they can be divided into abstract executive acts and concrete executive acts.

"Abstract executive acts" are the counterbalance of "concrete executive acts": "Within their functions and powers, state administrative agencies in accordance with the law focus on general objects, a type of activity of formulating administrative and managerial standards. For example, formulating and issuing various administrative laws and regulations are suited to ordinary people, therefore these acts of formulating and issuing are abstract executive acts."

"Concrete executive acts" are the counterbalance of "abstract executive acts": "Within their functions and powers, state administrative agencies focus on specific objects (people or events) a type of activity adopting certain administrative measures. The characteristic feature is that they have specific objects which are real and exist, and immediately produce legal effects on administrative laws. For example, foreign affairs departments approve certain applications and issue passports to go abroad; industrial and commercial administrative management departments revoke the business permits of businesses which violate the law; public security departments punish individuals who violate public security administrative control, etc."

For the above interpretations see "Fa Hsueh Tz'u-tien" [Legal Dictionary] published by the Shanghai Tz'u-shu Chupanshe, 1985 revised and enlarged edition. The interpretation of this official publisher should represent the Chinese interpretation.

From the above interpretation we can see that "administrative act" is "to formulate and issue various administrative and managerial laws and regulations," is "to adopt certain administrative measures"—and the administrative measures include, laws, orders and directives—can immediately produce legal effects. Even for "concrete executive acts," the items may be all-encompassing, and the dictionary cites three examples: those related to leaving the country, those related to industrial and commercial management and those related to public security.

The Danger of Article 18

Once the Hong Kong people accept the "executive acts of the Central People's Government" regardless of whether the Hong Kong courts have jurisdiction, as long as the articles are approved, the Central People's Government can "formulate and issue various administrative and managerial laws and regulations" for Hong Kong at will and can directly interfere in all the administrative affairs of Hong Kong. If the Central People's Government suspects that certain residents of Hong Kong have special grudges or certain transgressions, even if they have not broken any law of Hong Kong, but are suspected by the Central People's Government, an order can be issued to the Hong Kong Special Administrative Region—keeping certain residents from leaving the country—and the Hong Kong Special Administrative Region must obey. This is because the orders of the Central People's Government have the effect of "immediately producing legal results." In this way, the freedom of Hong Kong people, the "high degree of autonomy" of Hong Kong, and the "judicial independence" of Hong Kong, vanish.

It should also be pointed out that "the executive acts of the Central People's Government" are not written solely in this article, but are added to the range of authority of the Hong Kong courts so that people are not aware of them. If the Hong Kong draft committee or the figures from the legal world on the Hong Kong draft committee used the legal ideas of Western common law to interpret the Chinese "executive acts" it would be interpreted as "acts of state" so we might come to the following conclusion: "It is quite correct that the Hong Kong courts have no jurisdiction over the acts of state of the Central People's Government!" Thus, once passed, they are ratified by the National People's Congress. Thus Hong Kong has really been hoodwinked. In future the Central People's Government will interfere in the administrative affairs of Hong Kong at will and at will "formulate and issue various administrative laws and regulations" for Hong Kong, but Hong Kong will have no right to interfere or oppose and then it will be too late for regret!

10

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